WEST BANCORPORATION INC
Form 10-K
March 03, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934
For the fiscal year ended December 31, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

Commission file number: 0-49677

WEST BANCORPORATION, INC.
(Exact name of registrant as specified in its charter)

IOWA	42-1230603
(State of incorporation or organization)	(I.R.S. Employer Identification No.)
1601 22nd STREET, WEST DES MOINES, IOWA	50266
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (515) 222-2300

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, No Par Value	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 30, 2015, was approximately $310,083,685.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the most recent practicable date, March 1, 2016.

16,070,772 shares of common stock, no par value

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement of West Bancorporation, Inc., which was filed on March 3, 2016, is incorporated by reference into Part III hereof to the extent indicated in such Part.

FORM 10-K
TABLE OF CONTENTS

(PAGE INTENTIONALLY LEFT BLANK)

Table of Contents

"SAFE HARBOR" CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meanings of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements may appear throughout this report. These forward-looking statements are generally identified by the words “believes,” “expects,” “intends,” “anticipates,” “projects,” “future,” “may,” “should,” “will,” “strategy,” “plan,” “opportunity,” “will be,” “will likely result,” “will continue” or similar re references to estimates, predictions or future events. Such forward-looking statements are based upon certain underlying assumptions, risks and uncertainties. Because of the possibility that the underlying assumptions are incorrect or do not materialize as expected in the future, actual results could differ materially from these forward-looking statements. Risks and uncertainties that may affect future results include: interest rate risk; competitive pressures; pricing pressures on loans and deposits; changes in credit and other risks posed by the Company's loan and investment portfolios, including declines in commercial or residential real estate values or changes in the allowance for loan losses dictated by new market conditions or regulatory requirements; actions of bank and nonbank competitors; changes in local and national economic conditions; changes in regulatory requirements, limitations and costs; changes in customers' acceptance of the Company's products and services; cyber-attacks; and any other risks described in the “Risk Factors” sections of this and other reports filed by the Company with the Securities and Exchange Commission. The Company undertakes no obligation to revise or update such forward-looking statements to reflect current or future events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

PART I

ITEM 1. BUSINESS

General Development of Business

West Bancorporation, Inc. (the Company or West Bancorporation) is an Iowa corporation and a bank holding company registered under the Bank Holding Company Act of 1956, as amended (BHCA). The Company was formed in 1984 to own West Des Moines State Bank, an Iowa-chartered bank headquartered in West Des Moines, Iowa. West Des Moines State Bank is now known as West Bank. West Bank is a business-focused community bank that was organized in 1893. The Company's primary activity during 2015 was the ownership of West Bank. The Company's and West Bank's only business is banking, and therefore, no segment information is presented in this report.

The Company operates in three markets: central Iowa, which is generally the greater Des Moines metropolitan area; eastern Iowa, which is the area including and surrounding Iowa City and Coralville, Iowa; and the Rochester, Minnesota, area.

The Company's vision is to achieve and sustain a position of industry envy and admiration. Our financial performance goal is to be in the top quartile of our benchmarking peer group, which in 2015 consisted of 16 Midwestern, publicly traded financial institutions. The fiscal year ended December 31, 2015 was a great year for the Company and West Bank as measured by the following four key metrics:

l	Return on average assets:	1.30	%
l	Return on average equity:	14.88	%

l	Efficiency ratio:	46.30	%
l	Texas ratio:	0.87	%

Based on peer group analysis using September 30, 2015 data, Company results and ratios through the third quarter of 2015 were better than those of each member of our defined peer group for each of the measures shown above. We currently believe our fiscal year 2015 results will remain in the top quartile once comparable peer results are available.

In early 2015, Raymond James & Associates, Inc. included West Bank on its Community Bankers Cup awards listing of the top 10 percent of community banks in the United States. The awards were based on profitability, operational efficiency and balance sheet metrics. The pool of 306 community banks considered for recognition were all publicly traded domestic banks with assets between $500 million and $10 billion as of December 31, 2014. The Company was ranked number four out of the 306 banks across America and was the only Iowa bank and one of very few from the Midwest.

Table of Contents

The Company was named a "Sm-All Star" for the fourth year in a row by the investment banking firm Sandler O’Neill + Partners, L.P. This list is composed of top-performing, publicly traded, small-cap banks and thrifts in the United States. For purposes of this analysis, small-cap companies were those with a market value between $25 million and $2.5 billion. Out of 435 comparable banks across America, only 34 were named as 2015 Sm-All Stars. The Company was the only bank or thrift on the list in 2015 to receive the honor for the fourth consecutive year and was the only Iowa or Minnesota bank holding company to be recognized. The criteria used to determine the 2015 Sm-All Stars concentrated on growth, profitability, credit quality and capital strength. Additional criteria included having a net charge-off ratio over the prior 12 months of less than 0.25 percent and a tangible common equity ratio above 7.00 percent as of June 30, 2015.

The Company continued to grow in 2015, as loans outstanding at the end of 2015 totaled $1.25 billion compared to $1.18 billion at the end of 2014, an increase of 5.3 percent. Total deposits grew 13.4 percent during 2015 from the balances as of December 31, 2014. We believe the pipeline for new business is good as we continue to focus efforts on sales through strengthening existing relationships and developing new relationships.

The Company's Rochester, Minnesota, office, which opened in March 2013, again experienced strong growth in 2015. After almost three years of operations, this location had approximately $87 million of loans outstanding as of December 31, 2015. It is expected that this office will continue to have a strong growth rate in 2016. In October 2015, the Company broke ground on a new permanent office in Rochester. The new facility is expected to open in the third quarter of 2016. Once completed, the lease for the current office space will be terminated. The Company believes that southeastern Minnesota is a desirable market and an economic bedrock due to the strength and projected growth of the Mayo Clinic.

The Company's new eastern Iowa main office, located at 401 10th Avenue in Coralville, opened on January 21, 2015. Our investment in this new facility signifies our belief in the strength of that market. As a result of the opening of our new office, we vacated our former office in Iowa City effective January 15, 2015.

One of the keys to our 2015 operating success was an improvement in net interest income as a result of an increase in the average volume of interest-earning assets and reductions in interest rates on deposits. Also contributing to our higher 2015 earnings was the continued improvement in credit quality. As of December 31, 2015, total nonperforming assets declined to $1.5 million, or 0.08 percent of total assets, compared to $4.2 million, or 0.26 percent of total assets, as of December 31, 2014. The lower level of nonperforming assets allowed for resources to be focused on business development rather than managing nonearning assets. In addition, the reduction in nonperforming assets, specifically the elimination of all other real estate owned, resulted in much lower expense related to other real estate owned. We also had one nonrecurring item in the fourth quarter of 2015. West Bank has had an ownership interest in SmartyPig, LLC for several years. On November 30, 2015, SmartyPig, LLC was sold. The Company recognized an after-tax gain of approximately $0.5 million.

The Company declared and paid common stock dividends totaling $0.62 per share in 2015 and declared a $0.16 dividend on January 27, 2016 payable on February 24, 2016 to stockholders of record on February 10, 2016. The Company expects to continue paying regular quarterly dividends in the future. The capital position of the Company was strong at December 31, 2015. The Company's tangible common equity ratio at December 31, 2015 was 8.71 percent.

Description of the Company's Business

West Bank provides full-service community banking and trust services to customers located primarily in the Des Moines and Iowa City, Iowa, and the Rochester, Minnesota, metropolitan areas. West Bank has eight offices in the Des Moines area, one office in Iowa City, one office in Coralville and one office in Rochester, Minnesota. West Bank offers all basic types of credit to its customers, including commercial, real estate and consumer loans. West Bank offers trust services, including the administration of estates, conservatorships, personal trusts and agency accounts.

West Bank offers a full range of deposit services, including checking, savings, money market accounts and time certificates of deposit. West Bank also offers internet, mobile banking and treasury management services, which help to meet the banking needs of its customers and communities. Treasury management services offered to business customers include cash management, client-generated automated clearing house transactions, remote deposit and fraud protection services. Also offered are merchant credit card processing and corporate credit cards.

Table of Contents

West Bank's business strategy emphasizes strong business and personal relationships between West Bank and its customers and the delivery of products and services that meet the individualized needs of those customers. West Bank also emphasizes strong cost controls, while striving to achieve an above average return on equity and return on assets. To accomplish these goals, West Bank focuses on small- to medium-sized businesses in the local markets that traditionally wish to develop an exclusive relationship with a single bank. West Bank has the size to provide the personal attention required by local business owners and the financial expertise and entrepreneurial attitude to help businesses meet their financial service needs.

The market areas served by West Bank are highly competitive with respect to both loans and deposits. West Bank competes with other commercial banks, many of which are subsidiaries of other bank holding companies, credit unions, mortgage companies and other financial service providers. According to the Federal Deposit Insurance Corporation's (FDIC) Summary of Deposits, as of June 30, 2015, there were 35 banks operating within Polk County, Iowa, where seven of West Bank's offices are located. As of the same date, West Bank ranked fourth based on total deposits of all banking offices in Polk County. As of June 30, 2015, there were 18 banks within Johnson County, Iowa, which includes Iowa City and Coralville. Two West Bank offices were located in Johnson County as of June 30, 2015. As of the same date, West Bank ranked fourth based on total deposits of all banking offices in Johnson County. West Bank also has one office located in Dallas County, Iowa. For the entire state of Iowa, West Bank ranked eighth in terms of deposit size as of June 30, 2015. West Bank also has one office located in Rochester, Minnesota.

Some of West Bank's competitors are locally controlled, while others are regional, national or international companies. The larger national or regional banks have certain competitive advantages due to their ability to undertake substantial advertising campaigns and allocate their investment assets to out-of-market geographic regions with potentially higher returns. Such banks also offer certain services, for example, international and conduit financing transactions, which are not offered directly by West Bank. These larger banking organizations also have much higher legal lending limits than West Bank, and therefore, may be better able to service large regional, national and global commercial customers.

In order to compete to the fullest extent possible with the other financial institutions in its primary market areas, West Bank uses the flexibility and knowledge of its local management, Board of Directors and community advisors. West Bank seeks to capitalize on customers' desire to do business with a local institution. This includes emphasizing specialized services, local promotional activities, and personal contacts by West Bank's officers, directors and employees. In particular, West Bank competes for loans primarily by offering competitive interest rates, experienced lending personnel with local decision-making authority, flexible loan arrangements, quality products and services, and proactive relationship management. West Bank competes for deposits principally by offering depositors a variety of deposit programs, convenient office locations and hours and other personalized services.

West Bank also competes with the general financial markets for funds. Yields on corporate and government debt securities and commercial paper affect West Bank's ability to attract and hold deposits. West Bank also competes for funds with money market accounts and similar investment vehicles offered by brokerage firms, mutual fund companies, internet banks and others. The competition for these funds is based almost exclusively on yields to customers.

The Company and West Bank had approximately 174 full-time equivalent employees as of December 31, 2015.

Supervision and Regulation

General

FDIC-insured institutions, their holding companies and their affiliates are extensively regulated under federal and state law. As a result, our growth and earnings performance may be affected not only by management decisions and general economic conditions, but also by the requirements of federal and state statutes and by the regulations and policies of various bank regulatory agencies, including the Iowa Superintendent of Banking (the Iowa Superintendent), the Board of Governors of the Federal Reserve System (Federal Reserve), the FDIC and the Bureau of Consumer Financial Protection (CFPB). Furthermore, taxation laws administered by the Internal Revenue Service and state taxing authorities, accounting rules developed by the Financial Accounting Standards Board, securities laws administered by the Securities and Exchange Commission (SEC) and state securities authorities, and anti-money laundering laws enforced by the U.S. Department of the Treasury (Treasury) have an impact on our business. The effect of these statutes, regulations, regulatory policies and accounting rules are significant to our operations and results, and the nature and extent of future legislative, regulatory or other changes affecting banking organizations are impossible to predict with any certainty.

Table of Contents

Federal and state banking laws impose a comprehensive system of supervision, regulation and enforcement on the operations of FDIC-insured institutions, their holding companies and affiliates that is intended primarily for the protection of the FDIC-insured deposits and depositors of banks, rather than stockholders. These federal and state laws, and the regulations of the bank regulatory agencies issued under them, affect, among other things, the scope of our business; the kinds and amounts of investments we may make; reserve requirements; capital levels relative to our assets; the nature and amount of collateral for loans; the establishment of branches; our ability to merge, consolidate and acquire; dealings with our insiders and affiliates; and our payment of dividends. In the last several years, we have experienced heightened regulatory requirements and scrutiny following the global financial crisis and as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Although the reforms primarily targeted systemically important financial service providers, their influence filtered down in varying degrees to community banks over time and the reforms have caused our compliance and risk management processes, and the costs thereof, to increase.

This supervisory and regulatory framework subjects banks and bank holding companies to regular examination by their respective regulatory agencies, which results in examination reports and ratings that are not publicly available and that can impact the conduct and growth of their business. These examinations consider not only compliance with applicable laws and regulations, but also capital levels, asset quality and risk, management ability and performance, earnings, liquidity and various other factors. The regulatory agencies generally have broad discretion to impose restrictions and limitations on the operations of a regulated entity where the agencies determine, among other things, that such operations are unsafe or unsound, fail to comply with applicable laws or are otherwise inconsistent with laws and regulations or with the supervisory policies of these agencies.

The following is a summary of the material elements of the supervisory and regulatory framework applicable to the Company and West Bank, beginning with a discussion of the continuing regulatory emphasis on our capital levels. It does not describe all of the statutes, regulations and regulatory policies that apply, nor does it restate all of the requirements of those that are described. The descriptions are qualified in their entirety by reference to the particular statutory and regulatory provision.

Regulatory Emphasis on Capital

Regulatory capital represents the net assets of a banking organization available to absorb losses. Because of the risks attendant to their business, FDIC-insured institutions are generally required to hold more capital than other businesses, which directly affects our earnings capabilities. While capital has historically been one of the key measures of the financial health of both bank holding companies and banks, its role became fundamentally more important in the wake of the global financial crisis, as the banking regulators recognized that the amount and quality of capital held by some banks prior to the crisis was insufficient to absorb losses during periods of severe stress. Certain provisions of the Dodd-Frank Act and Basel III, discussed below, establish strengthened capital standards for banks and bank holding companies, require more capital to be held in the form of common stock and disallow certain funds from being included in capital determinations. These standards represent regulatory capital requirements that are meaningfully more stringent than those in place previously.

Minimum Required Capital Levels. Bank holding companies have historically had to comply with less stringent capital standards than their bank subsidiaries and have been able to raise capital with hybrid instruments such as trust preferred securities. The Dodd-Frank Act mandated the Federal Reserve to establish minimum capital levels for holding companies on a consolidated basis as stringent as those required for FDIC-insured institutions. As a consequence, the components of holding company permanent capital known as “Tier 1 Capital” were restricted to those capital instruments that are considered to be Tier 1 Capital for FDIC-insured institutions. A result of this change is that the proceeds of hybrid instruments, such as trust preferred securities, are being excluded from Tier 1 Capital over a phase-out period. However, if such securities were issued prior to May 19, 2010 by bank holding companies with less than $15 billion of assets, they may be retained, subject to certain restrictions. Because we have assets of less than $15 billion, we are able to maintain our trust preferred proceeds as Tier 1 Capital, but we have to comply with new capital mandates in other respects and will not be able to raise Tier 1 Capital in the future through the issuance of trust preferred securities.

The capital standards for the Company and West Bank changed on January 1, 2015 to add the requirements of Basel III discussed below. The minimum capital standards effective prior to and including December 31, 2014 were:

- A leverage requirement, consisting of a minimum ratio of Tier 1 Capital to total adjusted average quarterly assets of 3 percent for the most highly rated banks, with a minimum requirement of at least 4 percent for all others, and

- A risk-based capital requirement, consisting of a minimum ratio of Total Capital to total risk-weighted assets of 8 percent and a minimum ratio of Tier 1 Capital to total risk-weighted assets of 4 percent.

Table of Contents

For these purposes, Tier 1 Capital consists primarily of common stock, noncumulative perpetual preferred stock and related surplus less intangible assets (other than certain loan servicing rights and purchased credit card relationships). Total Capital consists primarily of Tier 1 Capital plus “Tier 2 Capital,” which includes other non-permanent capital items, such as certain other debt and equity instruments that do not qualify as Tier 1 Capital, and West Bank’s allowance for loan losses, subject to a limitation of 1.25 percent of risk-weighted assets. Further, risk-weighted assets for the purpose of the risk-weighted ratio calculations are balance sheet assets and off-balance sheet exposures to which required risk weightings of 0 percent to 1,250 percent are applied.

The Basel International Capital Accords. The risk-based capital guidelines described above are based upon the 1988 capital accord known as “Basel I” adopted by the international Basel Committee on Banking Supervision, a committee of central banks and bank supervisors, as implemented by the U.S. federal banking regulators on an interagency basis. In 2008, the banking agencies collaboratively began to phase-in capital standards based on a second capital accord, referred to as “Basel II,” for large or “core” international banks (generally defined for U.S. purposes as having total assets of $250 billion or more, or consolidated foreign exposures of $10 billion or more). On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced agreement on a strengthened set of capital requirements for banking organizations around the world, known as Basel III, to address deficiencies recognized in connection with the global financial crisis. Because of Dodd-Frank Act requirements, Basel III essentially layers a new set of capital standards on the previously existing Basel I standards.

The Basel III Rule. In July of 2013, the U.S. federal banking agencies approved the implementation of the Basel III regulatory capital reforms in pertinent part, and, at the same time, promulgated rules effecting certain changes required by the Dodd-Frank Act (the Basel III Rule). In contrast to capital requirements historically, which were in the form of guidelines, Basel III was released in the form of regulations by each of the regulatory agencies. The Basel III Rule is applicable to all banking organizations that are subject to minimum capital requirements, including federal and state banks and savings and loan associations, as well as to bank and savings and loan holding companies other than “small bank holding companies” (generally bank holding companies with consolidated assets of less than $1 billion).

The Basel III Rule not only increased most of the required minimum capital ratios effective January 1, 2015, but it also introduced the concept of Common Equity Tier 1 Capital, which consists primarily of common stock, related surplus (net of Treasury stock), retained earnings, and Common Equity Tier 1 minority interests subject to certain regulatory adjustments. The Basel III Rule also expanded the definition of capital by establishing more stringent criteria that instruments must meet to be considered Additional Tier 1 Capital (Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that qualified as Tier 1 Capital do not qualify, or their qualifications changed. For example, noncumulative perpetual preferred stock, which qualified as simple Tier 1 Capital, does not qualify as Common Equity Tier 1 Capital, but qualifies as Additional Tier 1 Capital. The Basel III Rule also constrained the inclusion of minority interests, mortgage-servicing assets, and deferred tax assets in capital and required deductions from Common Equity Tier 1 Capital in the event that such assets exceed a certain percentage of a banking institution’s Common Equity Tier 1 Capital.

The Basel III Rule requires minimum capital ratios beginning January 1, 2015, as follows:

- A new ratio of minimum Common Equity Tier 1 equal to 4.5 percent of risk-weighted assets;

- An increase in the minimum required amount of Tier 1 Capital to 6 percent of risk-weighted assets;

-

A continuation of the current minimum required amount of Total Capital (Tier 1 plus Tier 2) at 8 percent of risk-weighted assets; and

- A minimum leverage ratio of Tier 1 Capital to total quarterly average assets equal to 4 percent in all circumstances.

In addition, institutions that seek the freedom to make capital distributions (including for dividends and repurchases of stock) and pay discretionary bonuses to executive officers without restriction must also maintain 2.5 percent in Common Equity Tier 1 attributable to a capital conservation buffer to be phased in over three years beginning in 2016. The purpose of the conservation buffer is to ensure that banking institutions maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. Factoring in the fully phased-in conservation buffer increases the minimum ratios depicted above to 7 percent for Common Equity Tier 1, 8.5 percent for Tier 1 Capital and 10.5 percent for Total Capital.

Not only did the capital requirements change but the risk weightings (or their methodologies) for bank assets that are used to determine the capital ratios changed as well. For nearly every class of assets, the Basel III Rule requires a more complex, detailed and calibrated assessment of credit risk and calculation of risk weightings.

Table of Contents

Banking organizations (except for large, internationally active banking organizations) became subject to the new rules on January 1, 2015. However, there are separate phase-in/phase-out periods for: (i) the capital conservation buffer; (ii) regulatory capital adjustments and deductions; (iii) nonqualifying capital instruments; and (iv) changes to the prompt corrective action rules discussed below. The phase-in periods commenced on January 1, 2016 and extend until 2019.

Well-Capitalized Requirements. The ratios described above are minimum standards in order for banking organizations to be considered “adequately capitalized.” Bank regulatory agencies uniformly encourage banks and bank holding companies to hold more capital and be “well-capitalized” and, to that end, federal law and regulations provide various incentives for banking organizations to maintain regulatory capital at levels in excess of minimum regulatory requirements. For example, a banking organization that is well-capitalized may: (i) qualify for exemptions from prior notice or application requirements otherwise applicable to certain types of activities; (ii) qualify for expedited processing of other required notices or applications; and (iii) accept, roll-over or renew brokered deposits. Higher capital levels could also be required if warranted by the particular circumstances or risk profiles of individual banking organizations. For example, the Federal Reserve’s capital guidelines contemplate that additional capital may be required to take adequate account of, among other things, interest rate risk, or the risks posed by concentrations of credit, nontraditional activities or securities trading activities. Further, any banking organization experiencing or anticipating significant growth would be expected to maintain capital ratios, including tangible capital positions (i.e., Tier 1 Capital less all intangible assets), well above the minimum levels.

Under the capital regulations of the FDIC and Federal Reserve, in order to be well-capitalized, a banking organization must maintain:

- A new Common Equity Tier 1 Capital ratio to risk-weighted assets of 6.5 percent or more;
- A minimum ratio of Tier 1 Capital to total risk-weighted assets of 8 percent (6 percent under Basel I);
- A minimum ratio of Total Capital to total risk-weighted assets of 10 percent (the same as Basel I); and
- A leverage ratio of Tier 1 Capital to total adjusted average quarterly assets of 5 percent or greater.

It is possible under the Basel III Rule to be well-capitalized while remaining out of compliance with the capital conservation buffer discussed above.

As of December 31, 2015: (i) West Bank was not subject to a directive from the FDIC to increase its capital, and (ii) West Bank was well-capitalized, as defined by FDIC regulations. As of December 31, 2015, the Company had regulatory capital in excess of the Federal Reserve’s requirements and met the Basel III Rule requirements to be well-capitalized.

Prompt Corrective Action. An FDIC-insured institution’s capital plays an important role in connection with regulatory enforcement as well. Federal law provides the federal banking regulators with broad power to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators’ powers depends on whether the institution in question is “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized,” in each case as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators’ corrective powers include: (i) requiring the institution to submit a capital restoration plan; (ii) limiting the institution’s asset growth and restricting its activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to sell itself; (iv) restricting transactions between the institution and its affiliates; (v) restricting the interest rates that the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution.

Regulation and Supervision of the Company

General. The Company, as the sole stockholder of West Bank, is a bank holding company. As a bank holding company, we are registered with, and subject to regulation by, the Federal Reserve under the BHCA. We are legally obligated to act as a source of financial and managerial strength to West Bank and to commit resources to support West Bank in circumstances where we might not otherwise do so. Under the BHCA, we are subject to periodic examination by the Federal Reserve and are required to file with the Federal Reserve periodic reports of our operations and such additional information regarding us and West Bank as the Federal Reserve may require.

Table of Contents

Acquisitions, Activities and Change in Control. The primary purpose of a bank holding company is to control and manage banks. The BHCA generally requires the prior approval of the Federal Reserve for any merger involving a bank holding company or any acquisition by a bank holding company of another bank or bank holding company. Subject to certain conditions (including deposit concentration limits established by the BHCA), the Federal Reserve may allow a bank holding company to acquire banks located in any state of the United States. In approving interstate acquisitions, the Federal Reserve is required to give effect to applicable state law limitations on the aggregate amount of deposits that may be held by the acquiring bank holding company and its FDIC-insured institution affiliates in the state in which the target bank is located (provided that those limits do not discriminate against out-of-state institutions or their holding companies) and state laws that require that the target bank have been in existence for a minimum period of time (not to exceed five years) before being acquired by an out-of-state bank holding company. Furthermore, in accordance with the Dodd-Frank Act, bank holding companies must be well-capitalized and well-managed in order to effect interstate mergers or acquisitions. For a discussion of the capital requirements, see "—Regulatory Emphasis on Capital" above.

The BHCA generally prohibits the Company from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company that is not a bank and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. This general prohibition is subject to a number of exceptions. The principal exception allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the Federal Reserve prior to November 11, 1999 to be "so closely related to banking ... as to be a proper incident thereto." This authority would permit us to engage in a variety of banking-related businesses, including the ownership and operation of a savings association, or any entity engaged in consumer finance, equipment leasing, the operation of a computer service bureau (including software development) and mortgage banking and brokerage services. The BHCA does not place territorial restrictions on the domestic activities of nonbank subsidiaries of bank holding companies.

Additionally, bank holding companies that meet certain eligibility requirements prescribed by the BHCA and elect to operate as financial holding companies may engage in, or own shares in companies engaged in, a wider range of nonbank activities, including securities and insurance underwriting and sales, merchant banking and any other activity that the Federal Reserve, in consultation with the Secretary of the Treasury, determines by regulation or order is financial in nature or incidental to any such financial activity or that the Federal Reserve determines by order to be complementary to any such financial activity and does not pose a substantial risk to the safety or soundness of FDIC-insured institutions or the financial system generally. We have not elected to operate as a financial holding company.

Federal law also prohibits any person or company from acquiring "control" of an FDIC-insured depository institution or its holding company without prior notice to the appropriate federal bank regulator. Control is conclusively presumed to exist upon the acquisition of 25 percent or more of the outstanding voting securities of a bank or bank holding company, but may arise under certain circumstances between 10 percent and 24.99 percent ownership.

Capital Requirements. Bank holding companies are required to maintain capital in accordance with Federal Reserve capital adequacy requirements, as affected by the Dodd-Frank Act and Basel III. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

Dividend Payments. Our ability to pay dividends to our stockholders may be affected by both general corporate law considerations and policies of the Federal Reserve applicable to bank holding companies. As an Iowa corporation, we are subject to the limitations of Iowa law, which allows us to pay dividends unless, after such dividend, (i) we would not be able to pay our debts as they become due in the usual course of business, or (ii) our total assets would be less than the sum of our total liabilities plus any amount that would be needed if we were to be dissolved at the time of the dividend payment, to satisfy the preferential rights upon dissolution of stockholders whose rights are superior to the rights of the stockholders receiving the distribution.

As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should eliminate, defer or significantly reduce dividends to stockholders if: (i) the company's net income available to stockholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends; (ii) the prospective rate of earnings retention is inconsistent with the company's capital needs and overall current and prospective financial condition; or (iii) the company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios. The Federal Reserve also possesses enforcement powers over bank holding companies and their nonbank subsidiaries to prevent or remedy actions that represent unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to proscribe the payment of dividends by banks and bank holding companies. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5 percent in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

Monetary Policy. The monetary policy of the Federal Reserve has a significant effect on the operating results of financial or bank holding companies and their subsidiaries. Among the tools available to the Federal Reserve to affect the money supply are open market transactions in U.S. government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may affect interest rates charged on loans or paid on deposits.

Federal Securities Regulation. Our common stock is registered with the SEC under the Exchange Act. Consequently, we are subject to the information, proxy solicitation, insider trading and other restrictions and requirements of the SEC under the Exchange Act.

Corporate Governance. The Dodd-Frank Act addressed many investor protection, corporate governance and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring companies to give stockholders a nonbinding vote on executive compensation and so-called “golden parachute” payments, and authorizing the SEC to promulgate rules that would allow stockholders to nominate and solicit voters for their own candidates using a company’s proxy materials. The legislation also directed the Federal Reserve to promulgate rules prohibiting excessive compensation paid to executives of bank holding companies, regardless of whether such companies are publicly traded.

Regulation and Supervision of West Bank

General. West Bank is an Iowa-chartered bank. The deposit accounts of West Bank are insured by the FDIC’s Deposit Insurance Fund (DIF) to the maximum extent provided under federal law and FDIC regulations. As an Iowa-chartered FDIC-insured bank, West Bank is subject to the examination, supervision, reporting and enforcement requirements of the Iowa Superintendent, the chartering authority for Iowa banks, and the FDIC, designated by federal law as the primary federal regulator of insured state banks that, like West Bank, are not members of the Federal Reserve System (nonmember banks).

Deposit Insurance. As an FDIC-insured institution, West Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured institutions pay insurance premiums at rates based on their risk classification. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. For deposit insurance assessment purposes, an FDIC-insured institution is placed in one of four risk categories each quarter. An institution’s assessment is determined by multiplying its assessment rate by its assessment base. The total base assessment rates range from 2.5 basis points to 45 basis points. The assessment base is calculated using average consolidated total assets minus average tangible equity. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease the assessment rates, following notice and comment on proposed rulemaking.

Amendments to the Federal Deposit Insurance Act revised the assessment base against which an FDIC-insured institution’s deposit insurance premiums paid to the DIF are calculated to be its average consolidated total assets less its average tangible equity. This change shifted the burden of deposit insurance premiums toward those large depository institutions that rely on funding sources other than U.S. deposits. Additionally, the Dodd-Frank Act altered the minimum designated reserve ratio of the DIF, increasing the minimum from 1.15 percent to 1.35 percent of the estimated amount of total insured deposits, and eliminating the requirement that the FDIC pay dividends to FDIC-insured institutions when the reserve ratio exceeds certain thresholds. The FDIC has until September 3, 2020 to meet the 1.35 percent reserve ratio target. In lieu of dividends, the FDIC has adopted progressively lower assessment rate schedules that will take effect when the reserve ratio exceeds 1.15 percent, 2 percent and 2.5 percent. As a consequence, premiums will generally decrease once the 1.15 percent threshold is exceeded. In June 2015 and January 2016, the FDIC approved a Notice of Proposed Rulemaking on refinements to the deposit insurance assessment for small insured depository institutions (generally those institutions with less than $10 billion in total assets). Several of these provisions could increase West Bank’s FDIC deposit insurance premiums.

The Dodd-Frank Act permanently established the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per insured depositor.

FICO Assessments. In addition to paying basic deposit insurance assessments, FDIC-insured institutions must pay Financing Corporation (FICO) assessments. FICO is a mixed-ownership governmental corporation chartered by the former Federal Home Loan Bank Board pursuant to the Competitive Equality Banking Act of 1987 to function as a financing vehicle for the recapitalization of the former Federal Savings and Loan Insurance Corporation. FICO issued 30-year noncallable bonds of approximately $8.1 billion that mature in 2017 through 2019. FICO’s authority to issue bonds ended on December 12, 1991. Since 1996, federal legislation has required that all FDIC-insured institutions pay assessments to cover interest payments on FICO’s outstanding obligations. The FICO assessment rate is adjusted quarterly and for the fourth quarter of 2015 was 0.60 basis points (60 cents per $100 of assessable deposits).

Supervisory Assessments. All Iowa banks are required to pay supervisory assessments to the Iowa Superintendent to fund the operations of that agency. The amount of the assessment is calculated on the basis of West Bank's total assets. During the year ended December 31, 2015, West Bank paid supervisory assessments to the Iowa Superintendent totaling approximately $111,000.

Capital Requirements. Banks are generally required to maintain capital levels in excess of other businesses. For a discussion of capital requirements, see "—Regulatory Emphasis on Capital" above.

Liquidity Requirements. Liquidity is a measure of the ability and ease with which bank assets may be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. To remain viable, FDIC-insured institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. In addition to liquidity guidelines already in place, the U.S. bank regulatory agencies implemented the Basel III Liquidity Coverage Ratios (LCR) in September 2014, which requires large financial firms to hold levels of liquid assets sufficient to protect against constraints on their funding during times of financial turmoil. While the LCR only applies to the largest banking organizations in the country, certain elements are expected to filter down to all FDIC-insured institutions.

Stress Testing. A stress test is an analysis or simulation designed to determine the ability of a given FDIC-insured institution to deal with an economic crisis. In October 2012, U.S. bank regulators unveiled new rules mandated by the Dodd-Frank Act that require the largest U.S. banks to undergo stress tests twice per year, once internally and once conducted by the regulators, and began recommending portfolio stress testing as a sound risk management practice for community banks. While stress tests are not officially required for banks with less than $10 billion in assets, they have become part of annual regulatory exams even for banks small enough to be officially exempted from the process. The FDIC now recommends stress testing as a means to identify and quantify loan portfolio risk, and West Bank is conducting quarterly commercial real estate portfolio stress testing.

Dividend Payments. The primary source of funds for the Company is dividends from West Bank. Under the Iowa Banking Act, Iowa-chartered banks generally may pay dividends only out of undivided profits. The Iowa Superintendent may restrict the declaration or payment of a dividend by an Iowa-chartered bank, such as West Bank. The payment of dividends by any FDIC-insured institution is affected by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and an FDIC-insured institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. As described above, West Bank exceeded its capital requirements under applicable guidelines as of December 31, 2015. Notwithstanding the availability of funds for dividends, however, the FDIC and the Iowa Superintendent may prohibit the payment of dividends by West Bank if either or both determine such payment would constitute an unsafe or unsound practice. In addition, under the Basel III Rule, institutions that seek the freedom to pay dividends will have to maintain 2.5 percent in Common Equity Tier 1 attributable to the capital conservation buffer to be phased in over three years beginning in 2016. See "—Regulatory Emphasis on Capital" above.

State Bank Investments and Activities. West Bank is permitted to make investments and engage in activities directly or through subsidiaries as authorized by Iowa law. However, under federal law and FDIC regulations, FDIC-insured state banks are prohibited, subject to certain exceptions, from making or retaining equity investments of a type, or in an amount, that are not permissible for a national bank. Federal law and FDIC regulations also prohibit FDIC-insured state banks and their subsidiaries, subject to certain exceptions, from engaging as principal in any activity that is not permitted for a national bank unless West Bank meets, and continues to meet, its minimum regulatory capital requirements and the FDIC determines that the activity would not pose a significant risk to the DIF. These restrictions have not had, and are not currently expected to have, a material impact on the operations of West Bank.

Insider Transactions. West Bank is subject to certain restrictions imposed by federal law on “covered transactions” between West Bank and its “affiliates.” The Company is an affiliate of West Bank for purposes of these restrictions, and covered transactions subject to the restrictions include extensions of credit to the Company, investments in the stock or other securities of the Company and the acceptance of the stock or other securities of the Company as collateral for loans made by West Bank. The Dodd-Frank Act enhanced the requirements for certain transactions with affiliates, including an expansion of the definition of covered transactions and an increase in the amount of time for which collateral requirements regarding covered transactions must be maintained.

Certain limitations and reporting requirements are also placed on extensions of credit by West Bank to its directors and officers, to directors and officers of the Company and its subsidiaries, to principal stockholders of the Company and to “related interests” of such directors, officers and principal stockholders. In addition, federal law and regulations may affect the terms upon which any person who is a director or officer of the Company or West Bank, or a principal stockholder of the Company, may obtain credit from banks with which West Bank maintains a correspondent relationship.

Safety and Soundness Standards/Risk Management. The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of FDIC-insured institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

In general, the safety and soundness guidelines prescribe the goals to be achieved in each area, and each institution is responsible for establishing its own procedures to achieve those goals. If an institution fails to comply with any of the standards set forth in the guidelines, the FDIC-insured institution's primary federal regulator may require the institution to submit a plan for achieving and maintaining compliance. If an FDIC-insured institution fails to submit an acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by its primary federal regulator, the regulator is required to issue an order directing the institution to cure the deficiency. Until the deficiency cited in the regulator's order is cured, the regulator may restrict the FDIC-insured institution's rate of growth, require the FDIC-insured institution to increase its capital, restrict the rates the institution pays on deposits, or require the institution to take any action the regulator deems appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds for other enforcement action by the federal bank regulatory agencies, including cease and desist orders and civil money penalty assessments.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the FDIC-insured institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that inadequate information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that FDIC-insured institutions are expected to address in the current environment. West Bank is expected to have active Board and senior management oversight; adequate policies, procedures and limits; adequate risk measurement, monitoring and management information systems; and comprehensive internal controls.

Branching Authority. Iowa banks, such as West Bank, have the authority under Iowa law to establish branches anywhere in the State of Iowa, subject to receipt of all required regulatory approvals. Federal law permits state and national banks to merge with banks in other states subject to: (i) regulatory approval; (ii) federal and state deposit concentration limits; and (iii) state law limitations requiring the merging bank to have been in existence for a minimum period of time (not to exceed five years) prior to the merger. The establishment of new interstate branches has historically been permitted only in those states the laws of which expressly authorize such expansion. The Dodd-Frank Act permits well-capitalized and well-managed banks to establish new interstate branches or the acquisition of individual branches of a bank in another state (rather than the acquisition of an out-of-state bank in its entirety) without impediments.

Transaction Account Reserves. Federal Reserve regulations require FDIC-insured institutions to maintain reserves against their transaction accounts (primarily NOW and regular checking accounts). For 2016 the first $15.2 million of otherwise reservable balances are exempt from reserves and have no reserve requirement; for transaction accounts aggregating more than $15.2 million to $110.2 million, the reserve requirement is 3 percent of total transaction accounts; and for net transaction accounts in excess of $110.2 million, the reserve requirement is 3 percent up to

$110.2 million plus 10 percent of the aggregate amount of total transaction accounts in excess of $110.2 million. These reserve requirements are subject to annual adjustment by the Federal Reserve.

Community Reinvestment Act Requirements. The Community Reinvestment Act requires West Bank to have a continuing and affirmative obligation in a safe and sound manner to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods. Federal regulators regularly assess West Bank's record of meeting the credit needs of its communities. Applications for acquisitions would be affected by the evaluation of West Bank's effectiveness in meeting its Community Reinvestment Act requirements.

Anti-Money Laundering. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the Patriot Act) is designed to deny terrorists and criminals the ability to obtain access to the U.S. financial system and has significant implications for FDIC-insured institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act mandates financial services companies to have policies and procedures with respect to measures designed to address any or all of the following matters: (i) customer identification programs; (ii) money laundering; (iii) terrorist financing; (iv) identifying and reporting suspicious activities and currency transactions; (v) currency crimes; and (vi) cooperation between FDIC-insured institutions and law enforcement authorities.

Table of Contents

Concentrations in Commercial Real Estate. Concentration risk exists when FDIC-insured institutions deploy too many assets to any one industry or segment. A concentration in commercial real estate is one example of regulatory concern. The interagency Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices guidance (CRE Guidance) provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300 percent of capital and increasing 50 percent or more in the preceding three years or (ii) construction and land development loans exceeding 100 percent of capital. The CRE Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. On December 18, 2015, the federal banking agencies issued a statement to reinforce prudent risk-management practices related to CRE lending, having observed substantial growth in many CRE asset and lending markets, increased competitive pressures, rising CRE concentrations in banks, and an easing of CRE underwriting standards. The federal bank agencies reminded FDIC-insured institutions to maintain underwriting discipline and exercise prudent risk-management practices to identify, measure, monitor and manage the risks arising from CRE lending. In addition, FDIC-insured institutions must maintain capital commensurate with the level and nature of their CRE concentration risk.

Based on West Bank's loan portfolio as of December 31, 2015, it exceeded the 300 percent guideline for commercial real estate loans. Additional monitoring processes have been implemented to manage this increased risk.

Consumer Financial Services. The historical structure of federal consumer protection regulation applicable to all providers of consumer financial products and services changed significantly on July 21, 2011, when the CFPB commenced operations to supervise and enforce consumer protection laws. The CFPB has broad rulemaking authority for a wide range of consumer protection laws that apply to all providers of consumer products and services, including West Bank, as well as the authority to prohibit "unfair, deceptive or abusive" acts and practices. The CFPB has examination and enforcement authority over providers with more than $10 billion in assets. FDIC-insured institutions with $10 billion or less in assets, like West Bank, continue to be examined by their applicable bank regulators.

Because abuses in connection with residential mortgages were a significant factor contributing to the global financial crisis, many new rules issued by the CFPB and required by the Dodd-Frank Act address mortgage and mortgage-related products, their underwriting, origination, servicing and sales. The Dodd-Frank Act significantly expanded underwriting requirements applicable to loans secured by 1-4 family residential real property and augmented federal law combating predatory lending practices. In addition to numerous disclosure requirements, the Dodd-Frank Act imposed new standards for mortgage loan originations on all lenders, including all FDIC-insured institutions, in an effort to strongly encourage lenders to verify a borrower's "ability to repay," while also establishing a presumption of compliance for certain "qualified mortgages." In addition, the Dodd-Frank Act generally required lenders or securitizers to retain an economic interest in the credit risk relating to loans that the lender sells, and other asset-backed securities that the securitizer issues, if the loans have not complied with the ability-to-repay standards. We do not currently expect the CFPB's rules to have a significant impact on our operations, except for higher compliance costs.

ADDITIONAL INFORMATION

The principal executive offices of the Company are located at 1601 22nd Street, West Des Moines, Iowa 50266. The Company's telephone number is (515) 222-2300, and the internet address is www.westbankstrong.com. Copies of the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments thereto are available for viewing or downloading free of charge from the Investor Relations section of the

Company's website as soon as reasonably practicable after the documents are filed or furnished to the SEC. Copies of the Company's filings with the SEC are also available from the SEC's website (www.sec.gov) free of charge.

Table of Contents

ITEM 1A. RISK FACTORS

West Bancorporation's business is conducted almost exclusively through West Bank. West Bancorporation and West Bank are subject to many of the common risks that challenge publicly traded, regulated financial institutions. An investment in West Bancorporation's common stock is also subject to the following specific risks.

Risks Related to West Bancorporation's Business

We must effectively manage the credit risks of our loan portfolio.

The largest component of West Bank's income is interest received on loans. Our business depends on the creditworthiness of our customers. There are obvious risks inherent in making loans. We attempt to reduce our credit risk through prudent loan application, underwriting and approval procedures, including internal loan reviews before and after proceeds have been disbursed, careful monitoring of the concentration of our loans within specific industries, and collateral and guarantee requirements. These procedures cannot, however, be expected to completely eliminate our credit risks, and we can make no guarantees concerning the strength of our loan portfolio.

Our loan portfolio primarily includes commercial loans, which involve risks specific to commercial borrowers.

West Bank’s loan portfolio includes a significant amount of commercial real estate loans, construction and land development loans, commercial lines of credit and commercial term loans. West Bank's typical commercial borrower is a small- or medium-sized, privately owned Iowa or Minnesota business entity. Our commercial loans typically have greater credit risks than standard residential mortgage or consumer loans because commercial loans often have larger balances, and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve some additional risk because they generally are not fully repaid over the loan period and thus may require refinancing or a large payoff at maturity. If the general economy turns substantially downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly. Also, when credit markets tighten due to adverse developments in specific markets or the general economy, opportunities for refinancing may become more expensive or unavailable, resulting in loan defaults.

Our loan portfolio includes commercial real estate loans, which involve risks specific to real estate value.

Commercial real estate loans were a significant portion of our total loan portfolio as of December 31, 2015. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in one or more of our markets could increase the credit risk associated with our loan portfolio. Additionally, real estate lending typically involves higher loan principal amounts, and repayment of the loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled and the value of the real estate has been significantly impaired, then we may not be able to recover the full contractual amount of principal and interest that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

We are subject to environmental liability risk associated with real estate collateral securing our loans.

A significant portion of our loan portfolio is secured by real property. Under certain circumstances, we may take title to the real property collateral through foreclosure or other means. As the titleholder of the property, we may be responsible for environmental risks, such as hazardous materials, which attach to the property. For these reasons, prior to extending credit, we have an environmental risk assessment program to identify any known environmental risks associated with the real property that will secure our loans. In addition, we routinely inspect properties following the taking of title. When environmental risks are found, environmental laws and regulations may prescribe our approach to remediation. As a result, while we have ownership of a property, we may incur substantial expense and bear potential liability for any damages caused. The environmental risks may also materially reduce the property's value or limit our ability to use or sell the property. We also cannot guarantee that our environmental risk assessment will detect all environmental issues relating to a property, which could subject us to additional liability.

Table of Contents

Our allowance for loan losses may be insufficient to absorb potential losses in our loan portfolio.

We maintain an allowance for loan losses at a level we believe adequate to absorb probable losses inherent in our existing loan portfolio. The level of the allowance reflects management’s continuing evaluation of industry concentrations; specific credit risks; credit loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent in the current loan portfolio.

Determination of the allowance is inherently subjective as it requires significant estimates and management’s judgment of credit risks and future trends, all of which may undergo material changes. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review our allowance and may require an increase in the provision for loan losses or the recognition of additional loan charge-offs, based on judgments different from those of management. Also, if charge-offs in future periods exceed the allowance for loan losses, we will need additional provisions to increase the allowance. Any increases in provisions will result in a decrease in net income and capital and may have a material adverse effect on our financial condition and results of operations.

If a significant portion of any future unrealized losses in our portfolio of investment securities were to become other than temporarily impaired with credit losses, we would recognize a material charge to our earnings, and our capital ratios would be adversely impacted.

As of December 31, 2015, the fair value of our securities portfolio was approximately $372.6 million. Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of those securities. These factors include, but are not limited to, changes in interest rates, rating agency downgrades of the securities, defaults by the issuer or individual mortgagors with respect to the underlying securities, and instability in the credit markets. Any of the foregoing factors could cause an other than temporary impairment (OTTI) in future periods and result in realized losses.

We analyze our investment securities quarterly to determine whether, in the opinion of management, any of the securities have OTTI. To the extent that any portion of the unrealized losses in our portfolio of investment securities is determined to have OTTI and is credit-loss related, we will recognize a charge to our earnings in the quarter during which such determination is made, and our capital ratios will be adversely impacted. Generally, a fixed income security is determined to have OTTI when it appears unlikely that we will receive all of the principal and interest due in accordance with the original terms of the investment. In addition to credit losses, losses are recognized for a security with an unrealized loss if the Company has the intent to sell the security or if it is more likely than not that the Company will be required to sell the security before collection of the principal amount.

Our accounting policies and methods are the basis for how we report our financial condition and results of operations, and they may require management to make estimates about matters that are inherently uncertain.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure they comply with U.S. Generally Accepted Accounting Principles (GAAP) and reflect management's judgment as to the most appropriate manner in which to record and report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances. The application of that chosen accounting policy or method might result in us reporting different amounts than would have been reported under a different alternative. If management's estimates or assumptions are incorrect, the Company may experience material loss.

We have identified two accounting policies as being "critical" to the presentation of our financial condition and results of operations because they require management to make particularly subjective and complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. These critical accounting policies relate to: (1) determining the fair value and possible OTTI of investment securities, and (2) the allowance for loan losses. Because of the inherent uncertainty of these estimates, no assurance can be given that application of alternative policies or methods might not result in the reporting of different amounts of the fair value of investment securities or the allowance for loan losses and, accordingly, net income.

From time to time, the Financial Accounting Standards Board (FASB) and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes are beyond our control, can be difficult to predict and could have a materially adverse impact on our financial condition and results of operations.

The FASB is currently finalizing amendments to proposed Accounting Standards Update, Financial Instruments: Credit Losses, which establishes a new impairment framework also known as the "current expected credit loss model." In contrast to the incurred loss model currently used, the current expected credit loss model requires an allowance be recognized based on the expected credit losses (i.e. all contractual cash flows that the entity does not expect to collect from financial assets or commitments to extend credit). It requires the consideration of more forward-looking information than is permitted under current U.S. GAAP. In addition to relevant information about past events and current conditions, such as borrowers’ current creditworthiness, quantitative and qualitative factors specific to borrowers, and the economic environment in which the entity operates, the new model requires consideration of reasonable and supportable forecasts that affect the expected collectability of the financial assets’ remaining contractual cash flows, and evaluation of the forecasted direction of the economic cycle, as well as the time value of money. The effective date of the proposed amendments to the current guidance on accounting for credit losses is yet to be determined. The final guidance may require the Company to maintain a larger allowance for loan losses in the future than existing guidance currently requires. Any additional provisions to increase the allowance will result in a decrease in net income and capital and may have an adverse impact on our financial condition and results of operations. Moreover, the current expected credit loss model likely would create more volatility in our level of allowance for loan losses and result in higher capital requirements. The full effect of the implementation of this new model is unknown until the proposed guidance is finalized.

We are subject to liquidity risks.

West Bank maintains liquidity primarily through customer deposits and other short-term funding sources, including advances from the Federal Home Loan Bank (FHLB) and purchased federal funds. If economic influences change so that we do not have access to short-term credit, or our depositors withdraw a substantial amount of their funds for other uses, West Bank might experience liquidity issues. Our efforts to monitor and manage liquidity risk may not be successful or sufficient to deal with dramatic or unanticipated reductions in our liquidity. In such events, our cost of funds may increase, thereby reducing our net interest income, or we may need to sell a portion of our investment portfolio, which, depending upon market conditions, could result in the Company or West Bank realizing losses.

Although we believe West Bank's current sources of funds are adequate for its liquidity needs, there can be no assurance in this regard for the future. Liquidity issues during the most recent financial crisis were severe for regional and community banks, as some of the larger financial institutions significantly curtailed their lending to regional and community banks. In addition, many of the larger correspondent lenders reduced or even eliminated federal funds lines for their correspondent customers. If this were to occur again, and additional debt is needed in the future, there can be no assurance that such debt would be available or, if available, would be on favorable terms.

The competition for banking and financial services in our market areas is high, which could adversely affect our financial condition and results of operations.

We operate in highly competitive markets and face strong competition in originating loans, seeking deposits and offering our other services. We compete in making loans, attracting deposits, and recruiting and retaining talented people. The Des Moines metropolitan market area, in particular, has attracted many new financial institutions within the last two decades. We also compete with nonbank financial service providers, many of which are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result.

Customer loyalty can be influenced by a competitor's new products, especially if those offerings are priced lower than our products. Some of our competitors may also be better able to attract customers because they provide products and services over a larger geographic area than we serve. This competitive climate can make it more difficult to establish and maintain relationships with new and existing customers, can lower the rate that we are able to charge on loans, and can affect our charges for other services. Our growth and profitability depend on our continued ability to compete effectively within our market, and our inability to do so could have a material adverse effect on our financial condition and results of operations.

Technology and other changes are allowing customers to complete financial transactions using nonbanks that historically have involved banks at one or both ends of the transaction. For example, customers can now pay bills and transfer funds directly without going through a bank. The process of eliminating banks as intermediaries, known as disintermediation, could result in the loss of fee income as well as the loss of customer deposits.

Table of Contents

Loss of customer deposits due to increased competition could increase our funding costs.

We rely on bank deposits to be a low cost and stable source of funding. We compete with banks and other financial services companies for deposits. If our competitors raise the rates they pay on deposits, our funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Higher funding costs could reduce our net interest margin and net interest income and could have a material adverse effect on our financial condition and results of operations.

Our inability to continue to accurately process large volumes of transactions could adversely impact our business and financial results.

We process large volumes of transactions on a daily basis in our branches and through our third-party processor and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people, and systems includes the risk of fraud by persons inside or outside West Bank, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. These systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics and business practices are followed. From time to time, losses from operational risk may occur because of operational errors.

While we continually monitor and improve the system of internal controls, data processing systems, and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

Cybersecurity events could negatively affect our reputation, subject us to financial loss or result in litigation.

West Bank has access to large amounts of confidential financial information and controls substantial financial assets belonging to its customers. West Bank offers its customers continuous remote access to their accounts in several different ways and otherwise regularly transfers substantial financial assets by electronic means. Accordingly, cybersecurity is a material risk for West Bank.

West Bank depends on third-party data processing and the communication and exchange of information on a variety of platforms, networks, and over the internet. West Bank cannot be certain that all of its systems are entirely free from vulnerability to attack, despite safeguards that it has installed. West Bank does business with a number of third-party service providers and vendors with respect to West Bank's business, data and communications needs. If information security is breached, or if one of West Bank's employees or vendors breaches compliance procedures, information could be lost or misappropriated in manners resulting in financial loss to West Bank, damages to others or potential litigation. Cyber incidents such as computer break-ins, phishing, identity theft and other disruptions could jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure, which may result in significant liability to us in excess of any applicable insurance coverage, and may cause existing and potential customers to refrain from doing business with us. Although we, with the help of third-party service providers, will continue to implement security technology and establish operational procedures to prevent, detect, react, and recover from these potential cyber incidents, there can be no assurance that these security measures will be successful.

Failure to maintain effective internal controls over financial reporting could impair our ability to accurately and timely report our financial results and could increase the risk of fraud.

Effective internal controls over financial reporting are necessary to provide reliable financial reports and prevent fraud. Management believes that our internal controls over financial reporting are currently effective. While management will continue to assess our controls and procedures and take immediate action to remediate any future perceived issues, there can be no guarantee of the effectiveness of these controls and procedures on an ongoing basis. Any failure to maintain an effective internal control environment could impact our ability to report our financial results on an accurate and timely basis, which could result in regulatory actions, loss of investor confidence, and an adverse impact on our business operations and stock price.

Table of Contents

West Bank and West Bancorporation’s operations rely on third-party service providers and vendors.

The Company utilizes a number of third-party service providers and vendors to provide products and services necessary to maintain our day-to-day operations. The Company is exposed to the risk that such vendors fail to perform under these arrangements. This could result in disruption of the Company’s business and have a material adverse impact on our results of operations and financial condition. There can be no assurance that the Company’s policies and procedures designed to monitor and mitigate vendor risks will be effective in preventing or limiting the effect of vendor nonperformance.

Employee, customer or third-party fraud could cause substantial losses.

West Bank's business involves financial assets. Financial assets are always potential targets for fraudulent activities. Employee, customer or third-party fraud could subject us to operational losses or regulatory sanctions, and could seriously harm our reputation. Misconduct by our employees, customers or third-parties could include unauthorized activities, improper or unauthorized activities on behalf of a customer, deceit or misappropriation. We maintain a system of internal controls and insurance coverage to mitigate operational risks; however, it is not always possible to prevent such misconduct. Should our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds our insurance limits, fraud could have a material adverse effect on our business, results of operations or financial condition. Fraud does not even have to be aimed at West Bank to cause a loss. Losses are possible even where a customer is the victim of fraud or misappropriation if collateral held by West Bank is involved.

Disruption of infrastructure could adversely impact our operations.

Our operations depend upon our technological and physical infrastructures, particularly those located at our home office. Extended disruption of our vital infrastructures due to fire, power loss, natural disaster, telecommunications failure, cybersecurity events or other events could detrimentally affect our financial performance. We have developed disaster recovery plans to mitigate this risk but can make no assurances that these plans will be effective.

Damage to our reputation could adversely affect our business.

Our business depends upon earning and maintaining the trust and confidence of our customers, stockholders and employees. Damage to our reputation could cause significant harm to our business. Harm to our reputation can arise from numerous sources, including employee misconduct, vendor nonperformance, cybersecurity breaches, compliance failures, litigation or governmental investigations, among other things. In addition, a failure to deliver appropriate standards of service, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity about West Bank, whether or not true, may also result in harm to our business. Should any events or circumstances that could undermine our reputation occur, there can be no assurance that any lost revenue from customers lost and the additional costs and expenses that we may incur in addressing such issues would not adversely affect our financial condition and results of operations.

We are subject to various legal claims and litigation.

We are periodically involved in routine litigation incidental to our business, including the litigation disclosed in Item 3 of this Form 10-K. Regardless of whether these claims and legal actions are founded or unfounded, if such legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and/or adversely affect the Company’s reputation. In addition, litigation can be costly. Any financial liability, litigation costs or reputational damage caused by these legal claims could have a material adverse impact on our business, financial condition and results of operations.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Table of Contents

We may experience difficulties in managing our growth.

In 2013, we opened an office in Rochester, Minnesota. In the future, we may decide to expand into additional communities or attempt to strengthen our position in our current markets through opportunistic acquisitions of all or part of other financial institutions or related businesses that we believe provide a strategic fit with our business, or by opening new branches or loan production offices. To the extent that we undertake acquisitions or new office openings, we are likely to experience the effects of higher operating expense relative to operating income from the new operations, which may have an adverse effect on our overall levels of reported net income, return on average equity and return on average assets. Other effects of engaging in such growth strategies may include potential diversion of our management's time and attention and general disruption to our business.

To the extent that we grow through acquisitions or office openings, we cannot provide assurance that we will be able to adequately or profitably manage such growth. Acquiring other banks and businesses will involve risks similar to those commonly associated with new office openings, but may also involve additional risks. These additional risks include potential exposure to unknown or contingent liabilities of banks and businesses we acquire, exposure to potential asset quality issues of the acquired bank or related business, difficulty and expense of integrating the operations and personnel of banks and businesses we acquire, and the possible loss of key employees and customers of the banks and businesses we acquire.

Maintaining or increasing our market share may depend on lowering prices and the adoption of new products and services.

Our success depends, in part, on our ability to adapt our products and services to evolving industry standards. There is increased pressure to provide products and services at lower prices. Lower prices can reduce our net interest margin and revenues from our fee-based products and services. In addition, the widespread adoption of new technologies could require us to make substantial expenditures to modify or adapt our existing products and services. Also, these and other capital investments in our business may not produce expected growth in earnings anticipated at the time of the expenditure. We may not be successful in introducing new products and services, achieving market acceptance of our products and services, or developing and maintaining loyal customers.

The FDIC periodically amends its deposit insurance rate assessment structure, which can increase costs to the Company.

Under the Federal Deposit Insurance Act, as amended by the Dodd-Frank Act, the FDIC must establish and implement a plan to restore the Deposit Insurance Fund’s (DIF) designated reserve ratio to 1.35 percent of insured deposits by September 30, 2020. The FDIC must continue to assess and consider the appropriate level of the reserve ratio annually by considering each of the following: risk of loss to the insurance fund; economic conditions affecting the banking industry; the prevention of sharp swings in the assessment rates; and any other factors the FDIC deems important. The FDIC’s current fund management strategy includes a targeted long-term reserve ratio of 2.00 percent. The Dodd-Frank Act required changes to a number of components of the FDIC insurance assessment. While these changes have resulted in a lower amount of deposit insurance assessments for West Bank, in January 2016, the FDIC refined the assessment system for depository institutions with total assets of less than $10 billion. The refinements, which go into effect once the DIF reaches 1.15 percent, add more financial ratios to the calculation of our assessment rate. These upcoming changes in assessment rates or methodology could adversely impact West Bank’s net income and financial position in the future.

The loss of the services of any of our senior executive officers or key personnel could cause our business to suffer.

Much of our success is due to our ability to attract and retain senior management and key personnel experienced in bank and financial services who are very involved in the communities we currently serve. Our continued success depends to a significant extent upon the continued services of relatively few individuals. In addition, our success depends in significant part upon our senior management's ability to develop and implement our business strategies. The loss of services of a few of our senior executive officers or key personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business, financial condition or results of operations, at least in the short term.

Table of Contents

Risks Related to the Banking Industry in General and Community Banking in Particular

We may be materially and adversely affected by the highly regulated environment in which we operate.

We are subject to extensive federal and state regulation, supervision and examination. A more detailed description of the primary federal and state banking laws and regulations that affect us is contained in Item 1 of this Form 10-K in the section captioned “Supervision and Regulation.” Banking regulations are primarily intended to protect depositors’ funds, FDIC funds, customers and the banking system as a whole, rather than our stockholders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things.

As a bank holding company, we are subject to extensive regulation and supervision and undergo periodic examinations by our regulators, who have extensive discretion and authority to prevent or remedy unsafe or unsound practices or violations of law by banks and bank holding companies. Failure to comply with applicable laws, regulations or policies could result in sanctions by regulatory agencies, civil monetary penalties and/or damage to our reputation, which could have a material adverse effect on us. Although we have policies and procedures designed to mitigate the risk of any such violations, there can be no assurance that such violations will not occur.

Current or proposed regulatory or legislative changes to laws applicable to the financial industry may impact the profitability of our business activities and may change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations.

Our business is subject to domestic and, to a lesser extent, international economic conditions and other factors, many of which are beyond our control and could materially and adversely affect us.

Our financial performance generally, and in particular the ability of customers to pay interest on and repay principal on outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment, not only in the markets where we operate, but also in the states of Iowa and Minnesota, generally, in the United States as a whole, and internationally. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

While economic conditions in our markets, the states of Iowa and Minnesota and the United States have generally improved since the recession, there can be no assurance that this improvement will continue or occur at a meaningful rate. A return of recessionary conditions and/or continued negative developments in the domestic and international credit markets may significantly affect the markets in which we do business, the value of our loans and investments, and our ongoing operations, costs and profitability. Such conditions could materially and adversely affect us.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate, and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits.

The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The specific effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Table of Contents

Changes in interest rates could negatively impact our financial condition and results of operations.

Earnings in the banking industry, particularly the community bank segment, are substantially dependent on net interest income, which is the difference between interest earned on interest-earning assets (investments and loans) and interest paid on interest-bearing liabilities (deposits and borrowings). Interest rates are sensitive to many factors, including government monetary and fiscal policies and domestic and international economic and political conditions. During the last few years, interest rates have been at historically low levels. At the end of 2015, the Federal Reserve raised the target federal funds rate range from 0 percent to 0.25 percent to a range of 0.25 percent to 0.50 percent. If interest rates continue to increase, banks will experience competitive pressures to increase rates paid on deposits. Depending on competitive pressures, such deposit rate increases may increase faster than rates received on loans, which may reduce net interest income during the transition periods. Changes in interest rates could also influence our ability to originate loans and obtain deposits, the fair value of our financial assets and liabilities, and the average duration of our securities portfolio. Community banks, such as West Bank, rely more heavily than larger institutions on net interest income as a revenue source. Larger institutions generally have more diversified sources of noninterest income. See Item 7A of this Form 10-K for a discussion of the Company's interest rate risk management.

Technology is changing rapidly.

The banking industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. Effective use of technology increases efficiency and enables banks to better serve customers. Our future success depends, in part, on our ability to effectively implement new technology. Many of our larger competitors have substantially greater resources than we do to invest in technological improvements. As a result, they may be able to offer, or more quickly offer, additional or superior products that could put West Bank at a competitive disadvantage.

Risks Related to West Bancorporation's Common Stock

Our stock is relatively thinly traded.

Although our common stock is traded on the Nasdaq Global Select Market, the average daily trading volume of our common stock is relatively small compared to many public companies. The desired market characteristics of depth, liquidity, and orderliness require the substantial presence of willing buyers and sellers in the marketplace at any given time. In our case, this presence depends on the individual decisions of a relatively small number of investors and general economic and market conditions over which we have no control. Due to the relatively small trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause the stock price to fall more than would be justified by the inherent worth of the Company. Conversely, attempts to purchase a significant amount of our stock could cause the market price to rise above the reasonable inherent worth of the Company.

Issuing additional common or preferred stock may adversely affect the market price of our common stock, and capital may not be available when needed.

The Company may issue additional common or preferred shares in order to raise capital at some date in the future to support continued growth, either internally generated or through an acquisition. Common shares have been and will be issued through the Company's 2012 Equity Incentive Plan as grants of restricted stock units vest. As additional shares of common or preferred stock are issued, the ownership interests of our existing stockholders may be diluted. The market price of our common stock might decline or fail to advance in response to issuing additional common or preferred shares. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control. Accordingly, we cannot provide any assurance that we will be able to raise additional capital, if needed, at acceptable terms.

The holders of our junior subordinated debentures have rights that are senior to those of our stockholders.

As of December 31, 2015, the Company had $20.6 million in junior subordinated debentures outstanding that were issued to the Company's subsidiary trust, West Bancorporation Capital Trust I. The junior subordinated debentures are senior to the Company's shares of common stock. As a result, the Company must make payments on the junior subordinated debentures (and the related trust preferred securities (TPS)) before any dividends can be paid on its common stock, and, in the event of the Company's bankruptcy, dissolution or liquidation, the holders of the debentures must be satisfied before any distributions can be made to the holders of the common stock. The Company has the right to defer distributions on the junior subordinated debentures (and the related TPS) for up to five years during which time no dividends may be paid to holders of the Company's common stock. The Company's ability to pay future distributions depends upon the earnings of West Bank and the issuance of dividends from West Bank to the Company, which may be inadequate to service the obligations. Interest payments on the junior subordinated debentures underlying the TPS are classified as a “dividend” by the Federal Reserve supervisory policies and therefore are subject to applicable restrictions and approvals imposed by the Federal Reserve Board.

There can be no assurances concerning continuing dividend payments.

Our common stockholders are only entitled to receive the dividends declared by our Board of Directors. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to continue to pay regular quarterly dividends or that any dividends we do declare will be in any particular amount. The primary source of money to pay our dividends comes from dividends paid to the Company by West Bank. West Bank's ability to pay dividends to the Company is subject to, among other things, its earnings, financial condition and applicable regulations, which in some instances limit the amount that may be paid as dividends.

We are required to maintain capital to meet regulatory requirements, and if we fail to maintain sufficient capital, whether due to an inability to raise capital, operational losses, or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain regulatory compliance, could be adversely affected.

The Company and West Bank are required by federal and state regulatory authorities to maintain adequate levels of capital to support their operations, which increased on January 1, 2015, with the implementation of the Basel III Rule. The ability to raise additional capital, when and if needed, will depend on conditions in the capital markets, economic conditions, and a number of other factors, including investor perceptions regarding the banking industry and market conditions, and governmental activities, many of which are outside of our control, as well as on our financial condition and performance. Accordingly, we cannot provide assurance that we will be able to raise additional capital, if needed, or on terms acceptable to us. Failure to meet these capital and other regulatory requirements could affect customer confidence, our ability to grow, the costs of funds, FDIC insurance costs, the ability to pay dividends on common stock and to make distributions on the junior subordinated debentures, the ability to make acquisitions, and the results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

The Company is located in the main office building of West Bank, at 1601 22nd Street in West Des Moines, Iowa. The headquarters location is leased. West Bank rents approximately 20,200 square feet in the building and pays annual rent of approximately $469,000 for a full-service bank location that includes drive-up facilities and one automated teller machine. In addition to its main office and headquarters, as of December 31, 2015, West Bank also leased bank buildings and space for eight other branch offices (seven in the Des Moines, Iowa, metro area and one in Rochester, Minnesota) and for operational departments. The offices are full-service locations, with drive-up facilities and an automated teller machine, except for the office in Rochester, Minnesota, which does not have an automated teller machine or drive-up facility. Annual lease payments for these eight offices and the space for operating departments total approximately $1.3 million. The Company owns one full-service banking location in Iowa City, Iowa, and one full-service banking location in Coralville, Iowa. In October 2015, the Company broke ground on a full-service facility in Rochester, Minnesota. The new facility is expected to open in the third quarter of 2016 and will replace the current leased space. Also, in February 2016, the Company purchased one of its leased branch facilities in the Des Moines, Iowa, metro area. We believe each of our facilities is adequate to meet our needs.

24

ITEM 3. LEGAL PROCEEDINGS

On September 29, 2010, West Bank was sued in a class action lawsuit filed in the Iowa District Court for Polk County. Plaintiffs, Darla and Jason T. Legg, asserted nonsufficient funds fees charged by West Bank on debit card transactions were usurious under the Iowa Consumer Credit Code and that the sequence West Bank formerly used to post debit card transactions for payment violated various alleged duties of good faith and ordinary care. Plaintiffs sought alternative remedies including injunctive relief, damages (including treble damages), punitive damages, refund of bank fees, and attorney fees. The trial court entered orders on preliminary motions on March 4, 2014. It dismissed one of Plaintiffs' claims and found that factual disputes precluded summary judgment in West Bank's favor on the remaining claims. In addition, the court certified two classes for further proceedings. West Bank appealed the adverse rulings to the Iowa Supreme Court. On January 22, 2016, the Iowa Supreme Court filed two opinions that affirmed and reversed parts of the trial court rulings. The court reversed the trial court by holding the Iowa Consumer Credit Code usury claim and an unjust enrichment claim should be dismissed. Certification of classes on those claims was also reversed. The court affirmed the trial court by holding that the Plaintiffs can proceed with a breach of express contract claim based on a 2006 change in debit card payment sequencing coupled with the alleged lack of notice concerning that change. West Bank believes it has additional defenses to this claim and intends to continue vigorously defending the action after it is remanded to the district court. The amount of potential loss, if any, cannot now be reasonably estimated due to significant additional unresolved factual and legal issues that must be determined through further proceedings.

Except as described above, neither the Company nor West Bank are parties to any material pending legal proceedings, other than ordinary litigation incidental to West Bank's business, and no property of these entities is the subject of any such proceeding. The Company does not know of any proceeding contemplated by a governmental authority against the Company or West Bank.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

West Bancorporation common stock is traded on the Nasdaq Global Select Market under the symbol "WTBA." The table below shows the high and low sale prices and cash dividends on common stock declared for each quarter, and the closing price at the end of each quarter, in 2015 and 2014. The market quotations, reported by Nasdaq, do not include retail markup, markdown or commissions.

Market and Dividend Information

	High	Low	Close	Dividends
2015				
4th quarter	$21.09	$17.74	$19.75	$0.16
3rd quarter	20.99	17.67	18.75	0.16
2nd quarter	20.46	17.98	19.84	0.16
1st quarter	19.94	16.00	19.89	0.14
2014				
4th quarter	$17.05	$14.00	$17.02	$0.14
3rd quarter	15.68	14.01	14.13	0.12
2nd quarter	16.45	13.53	15.23	0.12
1st quarter	15.98	13.64	15.19	0.11

There were 198 holders of record of the Company's common stock as of February 19, 2016, and an estimated 2,600 additional beneficial holders whose stock was held in street name by brokerages or fiduciaries. The closing price of the Company's common stock was $17.63 on February 19, 2016.

In the aggregate, cash dividends paid to common stockholders in 2015 and 2014 were $0.62 and $0.49 per common share, respectively. Dividend declarations are evaluated and determined by the Board of Directors on a quarterly basis, and the dividends are paid quarterly. The ability of the Company to pay dividends in the future will depend primarily upon the earnings of West Bank and its ability to pay dividends to the Company.

The ability of West Bank to pay dividends is governed by various statutes. These statutes provide that no bank shall declare or pay any dividends in an amount greater than its retained earnings without approval from governing regulatory bodies. In addition, applicable bank regulatory authorities have the power to require any bank to suspend the payment of dividends until the bank complies with all requirements that may be imposed by such authorities.

On April 22, 2015, the Board of Directors renewed the Company's stock repurchase plan, which otherwise would have expired on that date. Management was authorized by the Board of Directors to purchase up to $2 million of the Company's common stock over the next twelve months. The authorization does not require such purchases and is subject to certain restrictions. Shares of Company common stock may be repurchased on the open market or in privately negotiated transactions. The extent to which the shares are repurchased and the timing of such repurchases will depend on market conditions and other corporate considerations. No shares have been repurchased under this authorization as of February 19, 2016.

Table of Contents

The following performance graph provides information regarding the cumulative, five-year return on an indexed basis of the common stock of the Company as compared with the Nasdaq Composite Index and the SNL Midwest Bank Index prepared by SNL Financial LC of Charlottesville, Virginia. The latter index reflects the performance of bank holding companies operating principally in the Midwest as selected by SNL Financial. The indices assume the investment of $100 on December 31, 2010, in the common stock of the Company, the Nasdaq Composite Index and the SNL Midwest Bank Index, with all dividends reinvested. The Company's common stock price performance shown in the following graph is not indicative of future stock price performance.

WEST BANCORPORATION, INC.

	Period Ending					
Index	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015
West Bancorporation, Inc.	100.00	125.38	146.20	222.03	246.90	295.91
Nasdaq Composite	100.00	99.21	116.82	163.75	188.03	201.40
SNL Midwest Bank	100.00	94.46	113.69	155.65	169.21	171.78

*Source: SNL Financial LC, Charlottesville, VA. Used with permission.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA
West Bancorporation, Inc. and Subsidiary
Selected Financial Data

	Years Ended December 31				
(in thousands, except per share amounts)	2015	2014	2013	2012	2011
Operating Results					
Interest income	$60,147	$55,301	$52,741	$50,662	$53,319
Interest expense	5,993	6,156	7,058	9,464	11,917
Net interest income	54,154	49,145	45,683	41,198	41,402
Provision for loan losses	850	750	(850)	625	550
Net interest income after provision for loan losses	53,304	48,395	46,533	40,573	40,852
Noninterest income	8,203	10,296	8,494	10,869	9,349
Noninterest expense	30,068	32,002	30,816	28,667	28,861
Income before income taxes	31,439	26,689	24,211	22,775	21,340
Income taxes	9,697	6,649	7,320	6,764	6,072
Net income	21,742	20,040	16,891	16,011	15,268
Preferred stock dividends and accretion of discount	—	—	—	—	(2,387)
Net income available to common stockholders	$21,742	$20,040	$16,891	$16,011	$12,881
Dividends and Per Share Data					
Cash dividends	$9,952	$7,842	$6,995	$6,265	$2,959
Cash dividends per common share	0.62	0.49	0.42	0.36	0.17
Basic earnings per common share	1.35	1.25	1.02	0.92	0.74
Diluted earnings per common share	1.35	1.25	1.02	0.92	0.74
Closing stock price	19.75	17.02	15.82	10.78	9.58
Book value	9.49	8.75	7.74	7.73	7.09
Average common shares outstanding	16,050	16,004	16,582	17,404	17,404
Year End and Average Balances					
Total assets	$1,748,640	$1,615,833	$1,442,404	$1,448,175	$1,269,524
Average assets	1,675,652	1,512,506	1,445,773	1,326,408	1,295,313
Investment securities	384,420	339,208	357,067	304,103	294,497
Loans	1,246,688	1,184,045	991,720	927,401	838,959
Allowance for loan losses	(14,967)	(13,607)	(13,791)	(15,529)	(16,778)
Deposits	1,440,729	1,270,462	1,163,842	1,134,576	957,373
Long-term borrowings	127,419	130,183	131,946	114,509	125,619
Stockholders' equity	152,377	140,175	123,625	134,587	123,451
Average stockholders' equity	146,089	131,924	127,789	129,795	135,520
Performance Ratios					
Equity to assets ratio	8.72 %	8.72 %	8.84 %	9.79 %	10.46 %
Return on average assets	1.30 %	1.32 %	1.17 %	1.21 %	1.18 %
Return on average equity	14.88 %	15.19 %	13.22 %	12.34 %	11.27 %
Efficiency ratio	46.30 %	49.93 %	52.55 %	50.83 %	49.27 %

Texas ratio	0.87	%	2.71	%	7.69	%	11.25	%	16.33	%
Net interest margin	3.59	%	3.59	%	3.48	%	3.42	%	3.58	%
Dividend payout ratio	45.77	%	39.13	%	41.41	%	39.13	%	22.97	%
Dividend yield	3.14	%	2.88	%	2.65	%	3.34	%	1.77	%

Definition of ratios:

- Equity to assets ratio - average equity divided by average assets.
- Return on average assets - net income divided by average assets.
- Return on average equity - net income divided by average equity.
- Efficiency ratio - noninterest expense (excluding other real estate owned expense) divided by noninterest income (excluding net securities gains, net impairment losses and gains/losses on disposition of premises and equipment) plus tax-equivalent net interest income.
- Texas ratio - total nonperforming assets divided by tangible common equity plus the allowance for loan losses.
- Net interest margin - tax-equivalent net interest income divided by average interest-earning assets
- Dividend payout ratio - dividends paid to common stockholders divided by net income available to common stockholders.
- Dividend yield - dividends per share paid to common stockholders divided by closing year-end stock price.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands, except per share amounts)

INTRODUCTION

The Company's 2015 net income was $21,742 compared to $20,040 in 2014, an increase of 8.5 percent. Annual 2015 earnings represented an all-time record within the 122-year history of the Company. Basic and diluted earnings per common share improved to $1.35 in 2015 from $1.25 in 2014. During 2015, we paid our common stockholders $9,952 ($0.62 per common share) in dividends compared to $7,842 ($0.49 per common share) in 2014. The dividend declared and paid in the first quarter of 2016 was $0.16 per common share, the same amount as paid in the fourth quarter of 2015.

The increase in 2015 net income compared to 2014 was primarily due to a $5,009, or 10.2 percent, increase in net interest income. The growth in net interest income was primarily the result of strong loan growth. Also contributing to the growth in net income was a gain on sale of our investment in SmartyPig, LLC and a reduction in other real estate owned expense. Partially offsetting these positive aspects of our performance were an increase in the provision for loan losses, a reduction in revenue from residential mortgage banking and a loss on disposition of premises and equipment.

Our loan portfolio grew to $1,246,688 as of December 31, 2015, from $1,184,045 at the end of 2014. Deposits increased to $1,440,729 as of December 31, 2015, from $1,270,462 as of December 31, 2014. The growth in both was the result of our bankers working with existing customers to provide them with the best financial solutions, as well as business development efforts targeted at new clients. As indicated by the year-end Texas ratio, nonperforming assets declined in 2015 compared to 2014, mainly due to the disposal of the only other real estate property owned during the most recent year.

The Company has a quantitative peer analysis program in place for evaluating our results. The group of 16 Midwestern, publicly traded, peer financial institutions against which we compared our performance each quarter consisted of BankFinancial Corporation, Baylake Corp., Farmers Capital Bank Corporation, First Defiance Financial Corp., First Mid-Illinois Bancshares, Inc., Hills Bancorporation, Horizon Bancorp, Isabella Bank Corporation, Mercantile Bank Corporation, MidWestOne Financial Group, Inc., MutualFirst Financial, Inc., Peoples Bancorp, Pulaski Financial Corp., QCR Holdings, Inc., Southwest Bancorp and Waterstone Financial, Inc. The members of the peer group are selected based on their business focus, scope and location of operations, size and other considerations. The Company is in the middle of the group in terms of size. The group is periodically reviewed, with changes made primarily to reflect merger and acquisition activity. Our goal is to perform at or near the top of these peers relative to what we consider to be four key metrics: return on average equity, return on average assets, efficiency ratio and Texas ratio. We believe these measures encompass the factors that define the performance of a community bank. Through September 30, 2015, our ratios were better than each member of our defined peer group for each of these measures as shown in the table below. We expect that trend to have continued through the end of 2015.

	West Bancorporation, Inc.	Peer Group Range
	Year ended December 31, 2015	Nine months ended September 30, 2015
Return on average assets	1.30%	0.36% - 1.27%

Return on average equity	14.88%	2.79% - 12.17%
Efficiency ratio*	46.30%	55.04% - 77.26%
Texas ratio*	0.87%	3.49% - 29.89%

* A lower ratio is better.

Based on Nasdaq market quotations of our closing stock prices, our stock price increased 16.0 percent from the end of 2014 to the end of 2015. Our earnings outlook is positive, and we have strong capital resources. We anticipate the Company will be profitable in 2016 at a level that compares favorably with our peers. The amount of our future profit will depend, in large part, on the amount of loan losses we incur and our ability to continue to grow the loan portfolio.

Table of Contents
(dollars in thousands, except per share amounts)

The following discussion describes the consolidated operations of the Company, including West Bank, West Bank's wholly-owned subsidiary WB Funding Corporation (which owned an interest in SmartyPig, LLC), and West Bank's 99.99 percent owned subsidiary ICD IV, LLC (a community development entity), and the Company's financial condition as of December 31, 2015. SmartyPig, LLC was sold during the fourth quarter of 2015. ICD IV, LLC was liquidated during the third quarter of 2014 because the underlying loan matured.

CRITICAL ACCOUNTING POLICIES

This report is based on the Company's audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP established by the Financial Accounting Standards Board. The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies are described in the Notes to Consolidated Financial Statements. Based on its consideration of accounting policies that involve the most complex and subjective estimates and judgments, management has identified its most critical accounting policies to be those related to asset impairment judgments, including fair value and other than temporary impairment (OTTI) of investment securities and the allowance for loan losses.

The Company evaluates each of its investment securities whose value has declined below amortized cost to determine whether the decline in fair value is OTTI. When determining whether an investment security is OTTI, management assesses the severity and duration of the decline in fair value, the length of time expected for recovery, the financial condition of the issuer and other qualitative factors, as well as whether: (a) it has the intent to sell the security, and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. In instances when a determination is made that an OTTI exists but management does not intend to sell the security and it is not more likely than not that it will be required to sell the security prior to its anticipated repayment or maturity, the OTTI is separated into: (a) the amount of the total OTTI related to a decrease in cash flows expected to be collected from the security (the credit loss); and (b) the amount of the total OTTI related to all other factors. The amount of the total OTTI related to the credit loss is recognized as a charge to earnings. The amount of the total OTTI related to all other factors is recognized in other comprehensive income. If the Company intends to sell or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the OTTI is recognized in earnings equal to the entire difference between the investment’s amortized cost basis and its fair value as of the balance sheet date.

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. The Company has policies and procedures for evaluating the overall credit quality of its loan portfolio, including timely identification of potential problem loans. On a quarterly basis, management reviews the appropriate level for the allowance for loan losses, incorporating a variety of risk considerations, both quantitative and qualitative. Quantitative factors include the Company's historical loss experience, delinquency and charge-off trends, collateral values, known information about individual loans and other factors. Qualitative factors include the general economic environment in the Company's market areas and the expected trend of those economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions or the other factors considered. To the extent that actual results differ from forecasts and management's judgment, the allowance for loan losses may be greater or less than future charge-offs.

Table of Contents
(dollars in thousands, except per share amounts)

RESULTS OF OPERATIONS - 2015 COMPARED TO 2014

OVERVIEW

Key performance measures of our 2015 operations compared to 2014 included:

- Return on average assets (ROA) was 1.30 percent compared to 1.32 percent in 2014.
- Return on average equity (ROE) was 14.88 percent compared to 15.19 percent in 2014.
- Efficiency ratio improved to 46.30 percent compared to 49.93 percent in 2014.
- Texas ratio improved to 0.87 percent compared to 2.71 percent in 2014.
- The loan portfolio grew 5.3 percent during 2015.
- Deposits increased by 13.4 percent during 2015.

Net income for the year ended December 31, 2015, was $21,742, compared to $20,040 for the year ended December 31, 2014. Basic and diluted earnings per common share were $1.35 and $1.25 for 2015 and 2014, respectively.

The improvement in 2015 net income compared to 2014 was primarily because of an increase in interest income due to growth in average loan volume. Growth in loans outstanding required a provision for loan losses of $850 in 2015, compared to a provision of $750 in 2014. Noninterest income declined $2,093 for 2015 primarily due to a $1,231 reduction in revenue from residential mortgage banking, a $1,075 reduction in net gains on disposition of premises and equipment, a $181 reduction in service charges on deposit accounts and a $176 reduction in net gains from sale of investment securities. Partially offsetting these reductions was a one-time gain of $590 on the sale of WB Funding's investment in SmartyPig, LLC. Noninterest expense declined $1,934 between 2014 and 2015 primarily because 2014 included $1,786 in other real estate owned write-downs based on updated appraisals of several properties. Income taxes increased in 2015 as the prior year included a higher level of utilization of capital loss carryforwards in connection with the sale of one branch office and one investment security.

The Company has consistently used the efficiency ratio as one of its key financial metrics to measure expense control. For the year ended December 31, 2015, the Company's efficiency ratio improved to 46.30 percent from the prior year's ratio of 49.93 percent. This ratio is computed by dividing noninterest expense (excluding other real estate owned expense) by the sum of tax-equivalent net interest income plus noninterest income (excluding securities gains, net impairment losses and gains/losses on disposition of premises and equipment). The ratio for both years was significantly better than our peer group's averages, which were generally around 65 percent and 70 percent, respectively, according to data in the September 2015 and 2014 Bank Holding Company Performance Report, which is prepared by the Federal Reserve Board's Division of Banking Supervision and Regulation.

The Texas ratio, which is the ratio of nonperforming assets to tangible capital plus the allowance for loan losses, improved to 0.87 percent as of December 31, 2015, compared to 2.71 percent as of December 31, 2014. A lower Texas ratio indicates a stronger credit quality condition. The continued decline was the result of additional reductions in the level of nonperforming assets, as resources were devoted to collection and the sale of the only other real estate owned property held during 2015. The ratio for both years is significantly better than peer group averages, which were approximately 9 percent and 14 percent, respectively, according to data in the September 2015 and 2014 Bank Holding Company Performance Reports. For more discussion on loan quality, see the Loan Portfolio and Summary of the Allowance for Loan Losses sections of this report.

Net Interest Income

Net interest income increased to $54,154 for 2015 from $49,145 for 2014 as the impact of loan growth and lower deposit rates exceeded the effect of the 11 basis point decline in average yield on loans. The net interest margin held steady at 3.59 percent for both years. The average yield on earning assets declined by six basis points, while the rate on interest-bearing liabilities declined five basis points. As a result, the net interest spread, which is the difference between the yields earned on assets and the rates paid on liabilities, declined to 3.42 percent for 2015 from 3.43 percent a year earlier. For additional analysis of net interest income, see the section captioned "Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates; and Interest Differential" in this Item of this Form 10-K.

Table of Contents
(dollars in thousands, except per share amounts)

Provision for Loan Losses and Loan Quality

The allowance for loan losses, which totaled $14,967 as of December 31, 2015, represented 1.20 percent of total loans and 1,024.4 percent of nonperforming loans at year end, compared to 1.15 percent and 702.5 percent, respectively, as of December 31, 2014. The provision for loan losses increased to $850 in 2015 compared to $750 for 2014 due to growth in the loan portfolio. The Company experienced net recoveries of 0.04 percent of average loans for 2015 compared to net charge-offs of 0.09 percent for 2014.

Nonperforming loans at December 31, 2015, totaled $1,461, or 0.12 percent of total loans, down from $1,937, or 0.16 percent, at December 31, 2014. Nonperforming loans include loans on nonaccrual status, loans past due 90 days or more, and loans that have been considered to be troubled debt restructured (TDR) due to the borrowers' financial difficulties. The Company held no other real estate properties as of December 31, 2015, compared to $2,235 as of December 31, 2014. The Company's Texas ratio improved to 0.87 percent as of December 31, 2015, compared to 2.71 percent as of December 31, 2014.

Noninterest Income

The following table shows the variance from the prior year in the noninterest income categories shown in the Consolidated Statements of Income. In addition, accounts within the “Other income” category that represent a significant portion of the total or a significant variance are shown.

	Years ended December 31			
Noninterest income:	2015	2014	Change	Change %
Service charges on deposit accounts	$2,609	$2,790	$(181)	(6.49)%
Debit card usage fees	1,830	1,764	66	3.74%
Trust services	1,286	1,327	(41)	(3.09)%
Revenue from residential mortgage banking	163	1,394	(1,231)	(88.31)%
Increase in cash value of bank-owned life insurance	727	731	(4)	(0.55)%
Gain (loss) on disposition of premises and equipment	(6)	1,069	(1,075)	(100.56)%
Realized investment securities gains, net	47	223	(176)	(78.92)%
Other income:				
Loan fees	120	98	22	22.45%
Letter of credit fees	82	127	(45)	(35.43)%
Gain on sale of other assets	590	—	590	N/A
All other	755	773	(18)	(2.33)%
Total other income	1,547	998	549	55.01%
Total noninterest income	$8,203	$10,296	$(2,093)	(20.33)%

The decline in service charges on deposit accounts was caused by fewer instances of nonsufficient funds fees as customers strove to maintain positive balances in their accounts.

Revenue from residential mortgage banking declined in 2015 compared to 2014 due to the Company changing its process for providing first mortgage loans to its customers, as previously disclosed. The Company changed its process for providing first mortgage loans to its customers at the end of 2014. Starting in January 2015, residential mortgage underwriting and processing were outsourced and funding for residential mortgages is now provided by a third party. The Company currently receives a fee from that third party for each residential mortgage loan initiated and closed by our retail staff. The reduction in this source of revenue had a correlating reduction in associated operating expenses.

Revenue from trust services was lower in 2015 compared to 2014 due to a reduction in the number of accounts and amount of assets held within custody accounts, and fewer one-time estate fees. The reduction was partially offset through business development efforts that have increased the number of accounts and amount of assets held within trust accounts. Trust assets earn fees at a higher rate than those of custody assets.

The sale of the downtown Iowa City office and the disposition of other unused assets resulted in a net gain of $1,069 in 2014. In January 2015, West Bank opened a newly constructed eastern Iowa main office in Coralville, which replaced the operations of the office that was sold.

Table of Contents
(dollars in thousands, except per share amounts)

The Company recognized net gains on sales of securities in 2015 and 2014 as sales were undertaken in order to capitalize on net gains while being able to reinvest the proceeds in investment securities with higher yields. In the fourth quarter of 2014, the Company also sold a pooled trust preferred security that had previously been reported as a security available for sale with OTTI at a loss of $493. The fair value of that nonperforming asset had been slowly improving over the two years prior to its sale.

Loan fees were higher in 2015 compared to 2014 primarily due to recognition of a previously deferred rate lock fee on one loan. A lower level of outstanding letters of credit caused the reduction in revenue from letter of credit fees in 2015 compared to 2014. Volumes of letters of credit fluctuate based upon the needs of our commercial customers.

The gain on sale of other assets recognized in 2015 was a nonrecurring item. On November 30, 2015, SmartyPig, LLC was sold, and the Company recognized a gain of $590 on its ownership interest.

Noninterest Expense

The following table shows the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Income. In addition, accounts within the "Other expenses" category that represent a significant portion of the total or a significant variance are shown.

	Years ended December 31			
Noninterest expense:	2015	2014	Change	Change %
Salaries and employee benefits	$16,065	$16,086	$(21)	(0.13)%
Occupancy	4,105	4,165	(60)	(1.44)%
Data processing	2,329	2,241	88	3.93%
FDIC insurance	839	757	82	10.83%
Other real estate owned	10	1,865	(1,855)	(99.46)%
Professional fees	748	944	(196)	(20.76)%
Director fees	881	714	167	23.39%
Miscellaneous losses	30	329	(299)	(90.88)%
Other expenses:				
Marketing	253	220	33	15.00%
Business development	654	702	(48)	(6.84)%
Insurance	361	384	(23)	(5.99)%
Bank service charges and investment advisory fees	710	551	159	28.86%
Charitable contributions	360	180	180	100.00%
Trust	396	344	52	15.12%
Consulting fees	260	337	(77)	(22.85)%
Supplies	305	292	13	4.45%
Low income housing projects amortization	228	188	40	21.28%
All other	1,534	1,703	(169)	(9.92)%
Total other	5,061	4,901	160	3.26%
Total noninterest expense	$30,068	$32,002	$(1,934)	(6.04)%

Salaries and employee benefits for 2015 had a minimal net change from 2014. The staff reductions in December 2014 related to the residential mortgage loan origination changes lowered salaries and employee benefits by approximately $1,051 in 2015 compared to the prior year. Offsetting these reductions were increases in stock-based compensation costs of $342, along with normal annual salary increases.

Data processing expense increased in 2015 primarily because of the addition of mobile banking technology, the continued strengthening of security measures and an annual contractual increase in fees paid to our core processor that is based upon an inflation factor.

Table of Contents
(dollars in thousands, except per share amounts)

Federal Deposit Insurance Corporation (FDIC) insurance expense increased for 2015 compared to 2014 due to growth in total assets. In January 2016, the FDIC approved a Notice of Proposed Rulemaking on refinements to the deposit insurance assessment system for small insured depository institutions (generally, those institutions with less than $10 billion in total assets). The refinements will become effective the quarter after the reserve ratio of the Deposit Insurance Fund reaches 1.15 percent. The Company's analysis projects that the proposal would increase our annual cost of FDIC insurance by approximately $50 based on our current balance sheet size.

Other real estate owned expense declined in 2015 compared to 2014, as the prior year included other real estate owned property valuation write-downs of $1,786 due to obtaining updated appraisals of several properties held. The Company held only one parcel of land in other real estate owned throughout 2015 and incurred a negligible amount of real estate taxes up to its sale in December 2015.

Professional fees declined in 2015 compared to 2014 due to lower legal fees. Director fees increased for the same time period as a result of higher stock-based compensation costs.

Miscellaneous losses include uncollected overdrafts, debit card fraud, other losses due to operational errors, and charges to establish loss reserves related to mortgage loans sold in the secondary market. Collectively, these activities generated lower losses in 2015 compared to 2014.

The increase in bank service charges and investment advisory fees for 2015 compared to 2014 resulted from the administrative fee charged by an investment management firm for assisting with the purchase and administration of public company floating rate commercial loans. This arrangement began in the second quarter of 2014. As of December 31, 2015, the Company had approximately $50,000 of these loans outstanding and may increase the balance of this portfolio up to approximately $75,000 during 2016.

Charitable contributions doubled in 2015 compared to 2014 as management chose to increase current year contributions to the West Bancorporation Foundation.

Consulting fees declined in 2015 as the prior year included fees paid for three one-time projects.

The increase in 2015 for low income housing project amortization compared to 2014 was related to the Company making commitments in 2014 to invest in additional projects. Offsetting the amortization expense in both 2015 and 2014 were approximately $275 and $160, respectively, of federal low income housing tax credits.

Income Taxes

The Company records a provision for income tax expense currently payable, along with a provision for those taxes payable or refundable in the future. Such deferred taxes arise from differences in the timing of certain items for financial statement reporting compared to income tax reporting. The effective income tax rate differs from the federal statutory income tax rate primarily due to tax-exempt interest income, the tax-exempt increase in cash value of bank-owned life insurance, disallowed interest expense, state income taxes, utilization of capital loss carryforwards and tax credits. The effective rate of income tax expense as a percent of income before income taxes was 30.8 percent and 24.9 percent, respectively, for 2015 and 2014.

Income tax expense for 2015 was slightly lower than would be expected due to the utilization of approximately $372 of capital loss carryforwards. The capital gains were generated from the sale of the Company's investment in

SmartyPig, LLC. The 2014 effective rate was also impacted by utilization of capital loss carryforwards related to the sale of an office in Iowa City and the sale of an impaired investment security. In prior years, the Company recorded a valuation allowance for the capital loss carryforwards, as management believed it was more likely than not that such carryforwards would expire without being utilized. The reduction in 2015 income tax expense related to the carryforwards utilized was approximately $130. The effective tax rate for both years was also impacted by federal low income housing tax credits as discussed in the previous section. Federal income tax expense was approximately $8,169 and $5,446 for 2015 and 2014, respectively, while state income tax expense was approximately $1,528 and $1,203, respectively. The Company continues to maintain a valuation allowance against the tax effect of state net operating losses and federal and state capital loss carryforwards, as management believes it is likely that such carryforwards will expire without being utilized.

Table of Contents
(dollars in thousands, except per share amounts)

RESULTS OF OPERATIONS - 2014 COMPARED TO 2013

OVERVIEW

Net income for the year ended December 31, 2014, was $20,040, compared to $16,891 for the year ended December 31, 2013. Basic and diluted earnings per common share were $1.25 and $1.02 for 2014 and 2013, respectively. The Company's ROA was 1.32 percent, compared to 1.17 percent for the year ended December 31, 2013. The Company's 2014 ROE was 15.19 percent, compared to 13.22 percent in 2013.

The improvement in net income in 2014 compared to 2013 was primarily because of an increase in interest income due to growth in average loan volume. Growth in loans outstanding required a provision for loan losses in 2014 of $750 compared to a negative provision of $850 for 2013. Noninterest income grew $1,802 for 2014 from 2013 primarily due to net gains on disposition of premises and equipment of $1,069 and a $330 increase in trust services. Noninterest expense increased $1,186, with a large portion of the increase due to an increase of $445 in other real estate owned write-downs based on updated appraisals of several properties. Income taxes declined in 2014 primarily due to the utilization of capital loss carryforwards in connection with the sale of one branch office and one investment security.

For the year ended December 31, 2014, the Company's efficiency ratio improved to 49.93 percent from the prior year's ratio of 52.55 percent.

Net Interest Income

Net interest income increased $3,462 to $49,145 for 2014 as the impact of loan growth, higher average yields on investment securities and lower deposit rates exceeded the effect of the 27 basis point decline in average yield on loans. The net interest margin increased to 3.59 percent in 2014 compared to 3.48 percent for the year ended December 31, 2013. In 2014, the average yield on earning assets increased by two basis points, while the rate paid on interest-bearing liabilities declined 12 basis points compared to 2013. As a result, the net interest spread increased to 3.43 percent in 2014 compared to 3.29 percent a year earlier.

Provision for Loan Losses and Loan Quality

The allowance for loan losses, which totaled $13,607 as of December 31, 2014, represented 1.15 percent of total loans and 702.5 percent of nonperforming loans at year end, compared to 1.39 percent and 473.1 percent, respectively, as of December 31, 2013. The provision for loan losses was $750 in 2014, compared to a negative provision of $850 for 2013. The Company's net charge-offs as a percent of average loans were 0.09 percent for both 2014 and 2013.

Nonperforming loans at December 31, 2014, totaled $1,937, or 0.16 percent of total loans, down from $2,915, or 0.29 percent, at December 31, 2013. In addition, the Company held one other real estate property with a carrying value of $2,235 as of December 31, 2014 and held $5,800 of other real estate owned as of December 31, 2013. The Company's Texas ratio improved to 2.71 percent as of December 31, 2014, compared to 7.69 percent as of December 31, 2013.

Table of Contents
(dollars in thousands, except per share amounts)

Noninterest Income

The following table shows the variance from the prior year in the noninterest income categories shown in the Consolidated Statements of Income. In addition, accounts within the “Other income” category that represent a significant portion of the total or a significant variance are shown.

	Years ended December 31			
Noninterest income:	2014	2013	Change	Change %
Service charges on deposit accounts	$2,790	$2,923	$(133)	(4.55)%
Debit card usage fees	1,764	1,787	(23)	(1.29)%
Trust services	1,327	997	330	33.10%
Revenue from residential mortgage banking	1,394	1,275	119	9.33%
Increase in cash value of bank-owned life insurance	731	646	85	13.16%
Gain (loss) on disposition of premises and equipment	1,069	(9)	1,078	11,977.78%
Realized investment securities gains, net	223	—	223	N/A
Other income:				
Loan fees	98	76	22	28.95%
Letter of credit fees	127	50	77	154.00%
Wire transfer fees	141	126	15	11.90%
ATM fees	56	42	14	33.33%
All other	576	581	(5)	(0.86)%
Total other income	998	875	123	14.06%
Total noninterest income	$10,296	$8,494	$1,802	21.21%

The decline in service charges on deposit accounts in 2014 compare to 2013 was caused by lower nonsufficient funds fees partially offset by increased fees from commercial accounts.

Revenues from trust services experienced significant growth during 2014 as a result of new business along with higher asset values.

The volume of residential mortgage originations sold into the secondary market during 2014 declined to $62,067 from $93,593 in 2013, while revenue increased. Revenue for 2013 was negatively impacted by a sudden rise in mortgage interest rates that occurred in June 2013, which caused a significant decline in gains recognized per loan sold in the third quarter of 2013.

The Company invested an additional $5,000 in bank-owned life insurance in the second quarter of 2014, resulting in a higher level of increases in cash value of bank-owned life insurance.

The fourth quarter 2014 sale of the downtown Iowa City office and the disposition of other unused assets resulted in a net gain of $1,069.

The Company recognized net gains on sales of investment securities of $716 in the first nine months of 2014. In the fourth quarter of 2014, the Company recognized a loss of $493 on the sale of a pooled trust preferred security that had previously been reported as a security available for sale with OTTI. The fair value of this nonperforming asset had been slowly improving over the prior two years. While recognizing a loss for book purposes, this security was eligible for capital gain treatment for tax purposes, which allowed utilization of capital loss carryforwards. This resulted in a tax benefit that was in excess of the book loss. There were no sales of investment securities during 2013.

The increase in loan fees in 2014 was mainly due to amortization of commitment fees. Letter of credit fees increased in 2014 due to a higher volume of standby letters of credit activity compared to the prior year.

Table of Contents
(dollars in thousands, except per share amounts)

Noninterest Expense

The following table shows the variance from the prior year in the noninterest expense categories shown in the Consolidated Statements of Income. In addition, accounts within the “Other expenses” category that represent a significant portion of the total or a significant variance are shown.

	Years ended December 31			
Noninterest expense:	2014	2013	Change	Change %
Salaries and employee benefits	$16,086	$15,757	$329	2.09 %
Occupancy	4,165	3,906	259	6.63 %
Data processing	2,241	2,030	211	10.39 %
FDIC insurance	757	733	24	3.27 %
Other real estate owned	1,865	1,359	506	37.23 %
Professional fees	944	1,200	(256)	(21.33)%
Director fees	714	584	130	22.26 %
Miscellaneous losses	329	736	(407)	(55.30)%
Other expenses:				
Marketing	220	359	(139)	(38.72)%
Business development	702	505	197	39.01 %
Insurance	384	370	14	3.78 %
Bank service charges and investment advisory fees	551	496	55	11.09 %
Trust	344	277	67	24.19 %
Consulting fees	337	276	61	22.10 %
Supplies	292	334	(42)	(12.57)%
Low income housing projects amortization	188	84	104	123.81 %
All other	1,883	1,810	73	4.03 %
Total other	4,901	4,511	390	8.65 %
Total noninterest expense	$32,002	$30,816	$1,186	3.85 %

The increase in salaries and employee benefits in 2014 compared to 2013 was primarily due to recognition of a higher amount of stock-based compensation costs ($145), higher bonus accruals ($187) and higher benefit costs ($102). These increases were partially offset by a decline in commission expense for mortgage loan originators ($129).

Occupancy expense increased in 2014 compared to 2013 due to higher depreciation and equipment service contract expenses related to ongoing technology upgrades. Rent expense also increased for 2014 compared to the prior year due to a full year of expense for the 2013 addition of the Rochester, Minnesota, office; an upgraded office in West Des Moines, Iowa, that was completed in March 2013; and the lease of additional space at the main bank location in February 2013. In addition, maintenance costs increased $64 for 2014 compared to 2013.

Data processing expense increased in 2014 primarily because of the increased volume of debit card transactions and additional information security measures put in place during 2014.

Other real estate owned expense for the years ended December 31, 2014 and 2013, included $1,786 and $1,341, respectively, of property valuation write-downs due to updated appraisals of several properties.

Professional fees declined in 2014 compared to 2013 due to lower legal fees. Director fees increased in 2014 compared to 2013 as a result of higher stock-based compensation costs, as well as an increase in the number of directors effective as of the 2013 Annual Meeting.

Miscellaneous losses include uncollected overdrafts, debit card fraud, other losses due to operational errors and charges to establish loss reserves related to mortgage loans sold in the secondary market. Collectively, these activities generated lower losses in 2014 than 2013.

Certain outsourced marketing activities were brought in-house in 2014, resulting in reduced costs. The increase in business development costs in 2014 compared to 2013 was the result of expanding sponsorships of local events in the communities the Company serves, as well as a continued focus on developing new relationships.

Table of Contents
(dollars in thousands, except per share amounts)

During 2014, West Bank entered into an agreement with an investment management firm to assist in the purchase of up to $50,000 of public company floating rate loans. As of December 31, 2014, approximately $42,000 of these loans were outstanding. The agreement includes an annual administration fee, which was the primary reason for the 2014 increase in bank service charges and investment advisory fees compared to 2013. Trust expense increased in 2014 compared to the prior year consistent with increased revenue. Consulting fees increased in 2014 due to fees paid for three one-time projects.

The cost of supplies declined in 2014 as expense for 2013 included one-time costs to reissue debit cards related to changing processors.

The increase in the cost of low income housing project amortization was related to the Company investing in additional projects during 2014. Offsetting the amortization expense in 2014 was approximately $160 of low income housing federal tax credits compared to $79 in 2013.

Income Taxes

The effective rate of income tax expense as a percent of income before income taxes was 24.9 percent and 30.2 percent, respectively, for 2014 and 2013. Income tax expense for 2014 was lower than would be expected due to the utilization of approximately $3,766 of capital loss carryforwards. The 2014 capital gains were generated from the sale of an office in Iowa City and the sale of a previously impaired investment security. The reduction in 2014 income tax expense related to the carryforwards was approximately $1,318. The effective tax rate for both years was also impacted by federal low income housing tax credits. The 2013 effective tax rate was also impacted by West Bank's 2007 investment in a qualified community development entity (ICD IV, LLC), which generated a federal new markets tax credit. The credit, which totaled $2,730, was recognized over a seven-year period ending in 2013. Federal income tax expense was approximately $5,446 and $6,141 for 2014 and 2013, respectively, while state income tax expense was approximately $1,203 and $1,179, respectively.

Table of Contents
(dollars in thousands, except per share amounts)

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES; AND INTEREST DIFFERENTIAL

Average Balances and an Analysis of Average Rates Earned and Paid

The following table shows average balances and interest income or interest expense, with the resulting average yield or rate by category of average earning assets or interest-bearing liabilities for the years indicated. Interest income and the resulting net interest income are shown on a fully taxable basis.

	2015			2014			2013		
	Average Balance	Revenue/ Expense	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate	Average Balance	Revenue/ Expense	Yield/ Rate
Assets									
Interest-earning assets:									
Loans: [1] [2]									
Commercial	$331,306	$13,813	4.17 %	$276,201	$11,662	4.22 %	$247,749	$10,908	4.40 %
Real estate [3]	873,844	39,404	4.51 %	779,223	36,121	4.64 %	696,763	34,386	4.94 %
Consumer and other	8,304	325	3.91 %	9,811	393	4.01 %	7,655	351	4.59 %
Total loans	1,213,454	53,542	4.41 %	1,065,235	48,176	4.52 %	952,167	45,645	4.79 %
Investment securities:									
Taxable	232,078	4,363	1.88 %	252,500	4,938	1.96 %	289,901	5,173	1.78 %
Tax-exempt [3]	107,414	4,765	4.44 %	94,851	4,347	4.58 %	79,187	3,688	4.66 %
Total investment securities	339,492	9,128	2.69 %	347,351	9,285	2.67 %	369,088	8,861	2.40 %
Federal funds sold	30,113	81	0.27 %	17,007	45	0.26 %	45,846	119	0.26 %
Total interest-earning assets [3]	1,583,059	62,751	3.96 %	1,429,593	57,506	4.02 %	1,367,101	54,625	4.00 %
Noninterest-earning assets:									
Cash and due from banks	46,122			34,152			33,693		
Premises and equipment, net	10,904			9,513			6,607		
Other, less allowance for loan losses	35,567			39,248			38,372		
Total noninterest-earning assets	92,593			82,913			78,672		
Total assets	$1,675,652			$1,512,506			$1,445,773		
Liabilities and Stockholders' Equity									
Interest-bearing liabilities:									
Deposits:									

Savings, interest-bearing demand and money markets	$825,771	1,341	0.16 %	$736,002	1,222	0.17 %	$650,566	1,611	0.25 %
Time	128,899	844	0.65 %	150,378	1,204	0.80 %	168,050	1,802	1.07 %
Total deposits	954,670	2,185	0.23 %	886,380	2,426	0.27 %	818,616	3,413	0.42 %
Other borrowed funds	146,693	3,808	2.60 %	150,654	3,730	2.48 %	178,119	3,645	2.05 %
Total interest-bearing liabilities	1,101,363	5,993	0.54 %	1,037,034	6,156	0.59 %	996,735	7,058	0.71 %
Noninterest-bearing liabilities:									
Demand deposits	420,842			336,456			312,648		
Other liabilities	7,358			7,092			8,601		
Stockholders' equity	146,089			131,924			127,789		
Total liabilities and stockholders' equity	$1,675,652			$1,512,506			$1,445,773		
Net interest income/net interest spread (3)		$56,758	3.42 %		$51,350	3.43 %		$47,567	3.29 %
Net interest margin (3)			3.59 %			3.59 %			3.48 %

(1) Average loan balances include nonaccrual loans and loans held for sale. Interest income recognized on nonaccrual loans has been included.

(2) Interest income on loans includes amortization of loan fees and costs and prepayment penalties collected, which are not material.

(3) Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental federal income tax rate of 35 percent and is adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities and loans.

Table of Contents
(dollars in thousands, except per share amounts)

Net Interest Income

The Company's largest component of net income is net interest income, which is the difference between interest earned on earning assets, consisting primarily of loans and investment securities, and interest paid on interest-bearing liabilities, consisting of deposits and borrowings. Fluctuations in net interest income can result from the combination of changes in the balances of asset and liability categories and changes in interest rates. Interest rates earned and paid are also affected by general economic conditions, particularly changes in market interest rates, and by competitive factors, government policies and the actions of regulatory authorities. Net interest margin is a measure of the net return on interest-earning assets and is computed by dividing tax-equivalent net interest income by total average interest-earning assets for the year.

For the years ended December 31, 2015, 2014 and 2013, the Company's net interest margin on a tax-equivalent basis was 3.59, 3.59 and 3.48 percent, respectively. There was an increase of $5,408 in tax-equivalent net interest income in 2015 compared to 2014 primarily due to growth in the loan portfolio. Management continually develops and applies strategies to maintain the net interest margin. Management believes the net interest margin will remain at approximately the same level in 2016 if outstanding loans remain at similar levels and the Federal Reserve maintains its current monetary policies.

Rate and Volume Analysis

The rate and volume analysis shown below, on a tax-equivalent basis, is used to determine how much of the change in interest income or expense is the result of a change in volume or a change in interest yield or rate. The change in interest that is due to both volume and rate has been allocated to the change due to volume and the change due to rate in proportion to the absolute value of the change in each.

	2015 Compared to 2014			2014 Compared to 2013		
	Volume	Rate	Total	Volume	Rate	Total
Interest Income						
Loans: (1)						
Commercial	$2,299	$(148)	$2,151	$1,215	$(461)	$754
Real estate (2)	4,289	(1,006)	3,283	3,906	(2,171)	1,735
Consumer and other	(59)	(9)	(68)	90	(48)	42
Total loans (including fees)	6,529	(1,163)	5,366	5,211	(2,680)	2,531
Investment securities:						
Taxable	(389)	(186)	(575)	(704)	469	(235)
Tax-exempt (2)	561	(143)	418	719	(60)	659
Total investment securities	172	(329)	(157)	15	409	424
Federal funds sold	35	1	36	(76)	2	(74)
Total interest income (2)	6,736	(1,491)	5,245	5,150	(2,269)	2,881
Interest Expense						
Deposits:						
Savings, interest-bearing demand and money markets	146	(27)	119	192	(581)	(389)
Time	(158)	(202)	(360)	(175)	(423)	(598)
Total deposits	(12)	(229)	(241)	17	(1,004)	(987)
Other borrowed funds	(100)	178	78	(612)	697	85
Total interest expense	(112)	(51)	(163)	(595)	(307)	(902)

Net interest income [2]	$6,848	$(1,440)	$5,408	$5,745	$(1,962)	$3,783

(1) Average balances of nonaccrual loans were included for computational purposes.

(2) Tax-exempt income has been converted to a tax-equivalent basis using a federal income tax rate of 35 percent and is adjusted for the effect of the nondeductible interest expense associated with owning tax-exempt investment securities and loans.

40

Table of Contents
(dollars in thousands, except per share amounts)

Tax-equivalent interest income and fees on loans increased $5,366 for the year ended December 31, 2015 compared to 2014. The average balance of loans increased $148,219 in 2015 compared to 2014 as the Iowa economy remained strong and West Bank lenders in each of our markets focused on business development. The average yield on loans declined 11 basis points in 2015 compared to 2014. The yield on the Company's loan portfolio is affected by the mix of the portfolio, the effects of competition, the interest rate environment, the amount of nonperforming loans, and reversals of previously accrued interest on charged-off loans. The political and interest rate environments can influence the volume of new loan originations and the mix of variable rate versus fixed rate loans.

The average balance of investment securities in 2015 was $7,859 lower than in 2014, while the yield increased 2 basis points. The decrease in volume was attributable to the combination of sales of investment securities and paydowns received on collateralized mortgage obligations and mortgage-backed securities throughout the year, partially offset by purchases of $99,901 made in the last four months of 2015. The average balance of federal funds sold increased $13,106 during 2015.

The average balance of interest-bearing deposits increased $68,290 in 2015 compared to 2014. The increase in the average balance was primarily the result of higher balances maintained by a significant deposit relationship, the normal fluctuations related to corporate customers' liquidity needs, and significant business development efforts. The average balance of time deposits continues to decline as fewer customers are willing to lock in interest rates in this extended period of historically low interest rates. The average rate paid on deposits in 2015 declined to 0.23 percent from 0.27 percent for 2014. Longer-term, higher-rate time deposits continue to mature and roll over into the current lower rates. The decline in deposit interest rates exceeded the cost attributed to higher interest-bearing deposit account balances, thus causing interest expense on deposits to decline by $241.

The average rate paid on other borrowed funds increased 12 basis points in 2015 compared to 2014, while the average balance declined $3,961 for the same time period. The increase in the average rate paid was primarily due to the amortization of interest rate swap termination fees, increases in the FHLB advances variable rates in the fourth quarter of 2015 and an interest rate swap fixed rate that became effective in December 2015. Management expects the interest costs of other borrowed funds to increase in 2016.

INVESTMENT SECURITIES PORTFOLIO

The following table sets forth the composition of the Company's investment portfolio as of the dates indicated.

	As of December 31		
	2015	2014	2013
Securities available for sale, at fair value:			
U.S. government agencies and corporations	$2,692	$12,820	$12,871
State and political subdivisions	73,079	52,359	87,788
Collateralized mortgage obligations	132,615	125,870	168,648
Mortgage-backed securities	101,088	66,153	58,156
Trust preferred securities	1,105	918	2,745
Corporate notes and other investments	10,135	14,670	15,008
Total securities available for sale, fair value and carrying value	$320,714	$272,790	$345,216
Securities held to maturity, at amortized cost:			
State and political subdivisions	$51,259	$51,343	$—

41

Table of Contents
(dollars in thousands, except per share amounts)

The investment securities available for sale presented in the following table are reported at fair value and by contractual maturity as of December 31, 2015. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The collateralized mortgage obligations and mortgage-backed securities have monthly paydowns, which are not projected in the table.

Investments as of December 31, 2015	Within one year	After one year but within five years	After five years but within ten years	After ten years	Total
U.S. government agencies and corporations	$—	$2,692	$—	$—	$2,692
State and political subdivisions	766	8,528	27,951	35,834	73,079
Collateralized mortgage obligations	—	1,256	5,389	125,970	132,615
Mortgage-backed securities	—	1,397	15,027	84,664	101,088
Trust preferred security	—	—	—	1,105	1,105
Corporate notes and other investments	252	8,062	300	1,521	10,135
Total	$1,018	$21,935	$48,667	$249,094	$320,714
Weighted average yield:					
U.S. government agencies and corporations	—	3.90 %	—	—	
State and political subdivisions (1)	4.14 %	4.34 %	4.30 %	4.40 %	
Collateralized mortgage obligations	—	3.22 %	2.63 %	2.19 %	
Mortgage-backed securities	—	3.70 %	2.13 %	2.05 %	
Trust preferred security	—	—	—	2.72 %	
Corporate notes and other investments	2.04 %	1.91 %	3.00 %	5.32 %	
Total	3.62 %	3.27 %	3.42 %	2.47 %	

(1) Yields on tax-exempt obligations have been computed on a tax-equivalent basis using an incremental federal income tax rate of 35 percent and are adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities.

The investment securities held to maturity presented in the following table are reported at amortized cost and by contractual maturity as of December 31, 2015. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investments as of December 31, 2015	Within one year	After one year but within five years	After five years but within ten years	After ten years	Total
State and political subdivisions	$—	$277	$16,570	$34,412	$51,259
Weighted average yield:					
State and political subdivisions (1)	— %	4.21 %	3.68 %	4.46 %	

(1) Yields on tax-exempt obligations have been computed on a tax-equivalent basis using an incremental federal income tax rate of 35 percent and are adjusted to reflect the effect of the nondeductible interest expense associated with owning tax-exempt investment securities.

Generally, management obtains the fair value of investment securities at the end of each reporting period via a third-party pricing service. Management, with the assistance of an independent investment advisory firm, reviewed the valuation process used by the third party and believes that process is valid. On a quarterly basis, management corroborates the fair values of investment securities by obtaining pricing from an independent investment advisory firm and comparing the two sets of fair values. Any significant variances are reviewed and investigated. In addition, the Company has a practice of further testing the fair values by selecting a sample of investment securities from each category of securities. For that sample, the prices were further validated by management, with assistance from an independent investment advisory firm, by obtaining details of the inputs used by the pricing service. Those inputs were independently tested, and we concluded the fair values were consistent with GAAP and investment securities were properly classified in the fair value hierarchy.

As of December 31, 2015, the existing gross unrealized losses of $2,955 were considered to be temporary in nature due to market interest rate fluctuations, not reduced estimated cash flows, and the Company has the ability and the intent to hold the related securities with unrealized losses for a period of time sufficient to allow for a recovery, which may be at maturity.

Table of Contents
(dollars in thousands, except per share amounts)

In September 2014, the Company reclassified 86 state and political subdivision securities with total amortized cost and fair value of $50,882 and $51,371, respectively, to the held to maturity classification. The Company decided it was prudent to reclassify approximately half of the state and political subdivision securities to the held to maturity designation as the Company has the ability and intent to hold these securities until their maturity dates, which range from 2020 to 2034. By establishing a "held to maturity" investment securities portfolio, any future decline in market value of the securities in this portfolio will not adversely impact stockholders' equity and book value per share.

As of December 31, 2015, approximately 73 percent of the available for sale investment securities portfolio consisted of government agency guaranteed collateralized mortgage obligations and mortgage-backed securities. In the current low interest rate environment, both provide relatively good yields, have little to no credit risk and provide fairly consistent cash flows. Collateralized mortgage obligations and mortgage-backed securities consist of residential mortgage pass-through securities guaranteed by the Government National Mortgage Association (GNMA) or issued by the Federal National Mortgage Association (FNMA) and real estate mortgage investment conduits guaranteed by the Federal Home Loan Mortgage Corporation (FHLMC) or GNMA. The debt obligations were all within the credit ratings acceptable under West Bank's investment policy.

Approximately 45 percent of the securities issued by state and political subdivisions involve governmental entities within the state of Iowa. The remaining securities issued by state and political subdivisions were issued by government entities in 17 other states with similar credit risks.

As of December 31, 2015, the Company did not have securities from a single issuer, except for the United States government or its agencies, that exceeded 10 percent of consolidated stockholders' equity.

LOAN PORTFOLIO

Types of Loans

The following table sets forth the composition of the Company's loan portfolio by segment as of the dates indicated.

	As of December 31				
	2015	2014	2013	2012	2011
Commercial	$349,051	$316,908	$258,010	$282,124	$255,702
Real estate:					
Construction, land and land development	174,602	154,490	117,394	121,911	101,607
1-4 family residential first mortgages	51,370	53,497	50,349	49,280	63,218
Home equity	21,749	24,500	25,205	25,536	26,423
Commercial	644,176	625,938	532,139	441,857	386,137
Consumer and other loans	6,801	9,318	9,236	7,099	6,155
Total loans	1,247,749	1,184,651	992,333	927,807	839,242
Deferred loan fees, net	(1,061)	(606)	(613)	(406)	(283)
Total loans, net of deferred fees	$1,246,688	$1,184,045	$991,720	$927,401	$838,959

As of December 31, 2015, total loans were approximately 87 percent of total deposits and 71 percent of total assets. As of December 31, 2015, the majority of all loans were originated directly by West Bank to borrowers within West Bank's principal market areas. There were $7,697 of purchased participation loans outstanding to four non-U.S. public companies who are listed on U.S. stock exchanges as of December 31, 2015.

Loans outstanding at the end of 2015 increased approximately five percent compared to the end of 2014. The growth was primarily in the commercial, commercial real estate, and construction and land development segments. Management believes the growth was the result of some improvement in our local economies, continued growth from the Rochester, Minnesota, location and the Company's overall business development efforts. The opening of the Rochester location in March 2013 and the addition of its experienced lenders have produced loan balances in that market of $87,220 as of December 31, 2015, an increase of $35,880 compared to loan balances outstanding as of December 31, 2014. Management believes the business development efforts are strong in all three of our markets, and additional growth is expected in 2016.

Table of Contents
(dollars in thousands, except per share amounts)

For a description of the loan segments, see Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K. The interest rates charged on loans vary with the degree of risk and the amount and terms of the loan. Competitive pressures, the creditworthiness of the borrower, market interest rates, the availability of funds, and government regulation further influence the rate charged on a loan.

The Company follows a loan policy approved by West Bank's Board of Directors. The loan policy is reviewed at least annually and is updated as considered necessary. The policy establishes lending limits, review criteria and other guidelines for loan administration and the allowance for loan losses, among other things. Loans are approved by West Bank's Board of Directors and/or designated officers in accordance with the applicable guidelines and underwriting policies. Loans to any one borrower are limited by state banking laws. Loan officer lending authorities vary according to the individual loan officer's experience and expertise.

Within the commercial real estate category, concentrations in excess of 10 percent of total loans outstanding at December 31, 2015 included approximately $181,000 of loans for medical-related facilities and approximately $122,000 of loans secured by multifamily residential properties.

Maturities of Loans

The contractual maturities of the Company's loan portfolio are as shown in the following tables. Actual maturities may differ from contractual maturities because individual borrowers may have the right to prepay loans with or without prepayment penalties.

Loans as of December 31, 2015	Within one year	After one but within five years	After five years	Total
Commercial	$151,526	$144,423	$53,102	$349,051
Real estate:				
Construction, land and land development	98,435	52,296	23,871	174,602
1-4 family residential first mortgages	6,132	39,673	5,565	51,370
Home equity	7,559	13,850	340	21,749
Commercial	24,069	426,003	194,104	644,176
Consumer and other loans	2,663	3,928	210	6,801
Total loans	$290,384	$680,173	$277,192	$1,247,749

	After one but within five years	After five years
Loan maturities after one year with:		
Fixed rates	$589,032	$176,613
Variable rates	91,141	100,579
	$680,173	$277,192

Table of Contents
(dollars in thousands, except per share amounts)

Risk Elements

The following table sets forth the amount of nonperforming assets held by the Company and common ratio measurements of those assets as of the dates indicated.

	Years Ended December 31				
	2015	2014	2013	2012	2011
Nonaccrual loans	$1,381	$1,561	$2,398	$6,400	$8,572
Loans past due 90 days and still accruing interest	—	—	—	—	—
Troubled debt restructured loans (1)	80	376	517	856	2,121
Total nonperforming loans	1,461	1,937	2,915	7,256	10,693
Other real estate owned	—	2,235	5,800	8,304	10,967
Nonaccrual investment securities	—	—	1,850	1,334	1,245
Total nonperforming assets	$1,461	$4,172	$10,565	$16,894	$22,905
Nonperforming loans to total loans	0.12 %	0.16 %	0.29 %	0.78 %	1.27 %
Nonperforming assets to total assets	0.08 %	0.26 %	0.73 %	1.17 %	1.80 %

(1) While TDR loans are commonly reported by the industry as nonperforming, those not classified in the nonaccrual category are accruing interest due to payment performance. TDR loans on nonaccrual status, if any, are included in the nonaccrual category.

Credit quality of the Company's assets remains strong as nonperforming assets continued to decline during 2015. The Company's Texas ratio, which is computed by dividing nonperforming assets by tangible common equity plus the allowance for loan losses, was 0.87 percent as of December 31, 2015, an improvement from 2.71 percent as of December 31, 2014. The 65.0 percent decline in nonperforming assets since the end of 2014 is the result of continued devotion of resources to collection and disposal of these assets. In December 2015, the Company sold the single remaining property in other real estate owned that was recorded at $2,235. The sale resulted in a loss of $8.

The accrual of interest on past due and other impaired loans is generally discontinued when loan payments are past due 90 days or when, in the opinion of management, the borrower may be unable to make payments as they become due. Interest income is subsequently recognized only to the extent cash payments are received. Generally, all payments received while a loan is on nonaccrual status are applied to the principal balance of the loan. For the years ended December 31, 2015, 2014 and 2013, interest income that would have been recorded during the nonaccrual period under the original terms of such loans was approximately $128, $136 and $333, respectively. A loan may be returned to accrual status when all principal and interest amounts contractually due are brought current and it is reasonable to expect continued payment performance. In certain cases, interest may continue to accrue on loans past due more than 90 days when the value of the collateral is sufficient to cover both the principal amount of the loan and accrued interest and the loan is in the process of collection.

A loan is considered a TDR loan when the interest rate is reduced below that of a new loan with comparable risk or the term is extended beyond the original maturity date and the borrower is considered to be experiencing financial difficulties. The payment history of the borrower, along with a current analysis of its cash flows, is used to determine the restructured terms. Underwriting procedures are similar to those of new loan originations and renewals of performing loans in that current financial information is obtained and analyzed. A current assessment of collateral is performed. The approval process for TDR loans is the same as that for new loans. The TDR loans with extended terms are accounted for as impaired until ongoing performance is established. Any TDR loan with an interest rate concession remains in TDR status until paid off. Interest income on TDR loans is recognized pursuant to the revised terms of the loan agreement. A TDR loan may be reported in the nonaccrual category if it is not performing in accordance with its revised terms.

Interest income on other impaired loans is based upon the terms of the underlying loan agreement. However, the recorded net investment in impaired loans, including accrued interest, is limited to the present value of the expected cash flows of the impaired loan or the observable fair market value of the loan's collateral. The average balance of all impaired loans during 2015 was approximately $2,435. Interest income recognized on impaired loans in 2015, 2014 and 2013 was approximately $19, $105 and $347, respectively.

Table of Contents
(dollars in thousands, except per share amounts)

As of December 31, 2015, West Bank had identified approximately $1,805 in loans to one commercial customer as potential problem loans. The Small Business Administration guarantees approximately $435 of these loans, and none of these loans were in default at the end of the year. It is not now possible to predict the degree of problems these loans may develop. However, West Bank is closely monitoring each loan.

SUMMARY OF THE ALLOWANCE FOR LOAN LOSSES

The provision for loan losses represents charges made to earnings to maintain an adequate allowance for loan losses. The adequacy of the allowance for loan losses is evaluated quarterly by management and reviewed by the Board of Directors. The allowance for loan losses is management's best estimate of probable losses inherent in the loan portfolio as of the balance sheet date.

Factors considered in establishing an appropriate allowance include: an assessment of the financial condition of the borrower; the value and adequacy of loan collateral; the condition of the local economy and the condition of the specific industry of the borrower; the levels and trends of loans by segment; and a review of delinquent and classified loans. The quarterly evaluation focuses on factors such as specific loan reviews, changes in the components of the loan portfolio given the current and forecasted economic conditions, and historical loss experience. Any one of the following conditions may result in the review of a specific loan: concern about whether the customer's cash flow or net worth is sufficient to repay the loan; delinquency status; criticism of the loan in a regulatory examination; the suspension of interest accrual; or other factors, including whether the loan has other special or unusual characteristics that suggest special monitoring is warranted. The Company's concentration risks include geographic concentration in central and eastern Iowa and southeastern Minnesota. The local economies are composed primarily of service industries and state and county governments.

West Bank has a significant portion of its loan portfolio in commercial real estate loans, commercial lines of credit, commercial term loans, and construction and land development loans. West Bank's typical commercial borrower is a small- or medium-sized, privately owned business entity. West Bank's commercial loans typically have greater credit risks than residential mortgage or consumer loans because they often have larger balances and repayment usually depends on the borrowers' successful business operations. Commercial loans also involve additional risks because they generally are not fully repaid over the loan period and, thus, may require refinancing or a large payoff at maturity. If the general economy turns downward, commercial borrowers may not be able to repay their loans, and the value of their assets, which are usually pledged as collateral, may decrease rapidly and significantly.

While management uses available information to recognize losses on loans, further reduction in the carrying amounts of loans may be necessary based on changes in circumstances, changes in the overall economy in the markets we currently serve, or later acquired information. Identifiable sectors within the general economy are subject to additional volatility, which at any time may have a substantial impact on the loan portfolio. In addition, regulatory agencies, as integral parts of their examination processes, periodically review the estimated losses on loans. Such agencies may require West Bank to recognize additional losses based on such agencies' review of information available to them at the time of their examinations.

Table of Contents
(dollars in thousands, except per share amounts)

Change in the Allowance for Loan Losses

West Bank's policy is to charge off loans when, in management's opinion, a loan or a portion of a loan is deemed uncollectible, although concerted efforts are made to maximize future recoveries. The following table summarizes activity in the Company's allowance for loan losses by loan segment for the years indicated, including amounts of loans charged off, recoveries, additions to the allowance charged to income and related ratios.

	Analysis of the Allowance for Loan Losses for the Years Ended December 31				
	2015	2014	2013	2012	2011
Balance at beginning of period	$13,607	$13,791	$15,529	$16,778	$19,087
Charge-offs:					
Commercial	408	836	742	402	2,976
Real estate:					
Construction, land and land development	—	—	—	1,508	2
1-4 family residential first mortgages	23	131	116	301	946
Home equity	2	138	119	343	97
Commercial	—	112	624	5	722
Consumer and other loans	6	—	33	25	21
	439	1,217	1,634	2,584	4,764
Recoveries:					
Commercial	579	116	292	354	1,809
Real estate:					
Construction, land and land development	250	8	42	—	2
1-4 family residential first mortgages	7	45	150	98	42
Home equity	87	99	236	22	29
Commercial	12	11	2	206	1
Consumer and other loans	14	4	24	30	22
	949	283	746	710	1,905
Net charge-offs (recoveries)	(510)	934	888	1,874	2,859
Provision for loan losses charged to operations	850	750	(850)	625	550
Balance at end of period	$14,967	$13,607	$13,791	$15,529	$16,778
Average loans outstanding	$1,213,429	$1,063,528	$949,775	$854,860	$849,115
Ratio of net charge-offs (recoveries) during the period to average loans outstanding	(0.04)%	0.09%	0.09%	0.22%	0.34%
Ratio of allowance for loan losses to average loans outstanding	1.23%	1.28%	1.45%	1.82%	1.98%
Ratio of allowance for loan losses to total loans at the end of period	1.20%	1.15%	1.39%	1.67%	2.00%

Approximately $536 of the recoveries in 2015 related to two customers. Loan charge-offs in 2015 included a commercial loan for $200 related to one customer.

Table of Contents
(dollars in thousands, except per share amounts)

Breakdown of Allowance for Loan Losses by Category

The following table sets forth information concerning the Company's allocation of the allowance for loan losses by segment as of the dates indicated.

	As of December 31									
	2015		2014		2013		2012		2011	
	Amount	%*	Amount	%*	Amount	%*	Amount	%*	Amount	%*
Balance at end of period applicable to:										
Commercial	$4,369	27.97 %	$4,415	26.75 %	$4,199	26.00 %	$4,116	30.41 %	$4,409	30.47 %
Real estate:										
Construction, land and land development	2,338	13.99 %	2,151	13.04 %	3,032	11.83 %	4,616	13.14 %	3,572	12.11 %
1-4 family residential first mortgages	508	4.12 %	466	4.51 %	613	5.07 %	637	5.31 %	1,215	7.53 %
Home equity	481	1.74 %	534	2.07 %	403	2.54 %	568	2.75 %	832	3.15 %
Commercial	7,254	51.63 %	6,013	52.84 %	5,485	53.63 %	5,564	47.62 %	6,667	46.01 %
Consumer and other loans	17	0.55 %	28	0.79 %	59	0.93 %	28	0.77 %	83	0.73 %
	$14,967	100.00 %	$13,607	100.00 %	$13,791	100.00 %	$15,529	100.00 %	$16,778	100.00 %

* Percent of loans in each category to total loans.

The allocation of the allowance for loan losses is dependent upon the change in balances outstanding in the various categories; the historical net loss experience by category, which can vary over time; specific reserves for loans considered impaired; and management's assessment of economic factors that may influence potential losses in the loan portfolio. Prior to 2013, the historical experience factor was calculated using a rolling 12-quarter average. In the fourth quarter of 2013, the calculation was modified to use an experience factor based on the highest losses calculated over a rolling 12, 16 or 20 quarter period. Management believes that using the highest of these time periods will self-select the factor that best represents where we are in the economic cycle. For instance, if the economy worsens, the more recent activity should be more representative of the current environment. As the economy improves, the averages over a longer period of time should be more representative. As the experience factors continue to decline, management has increased the factors for other considerations during 2015 for commercial, commercial real estate, 1-4 family residential first mortgages, and construction, land and land development loans to maintain an adequate allowance for loan losses. This increased the portion of the allowance for loan losses related to loans collectively evaluated for impairment to 1.16 percent of loans collectively evaluated as of December 31, 2015 from 1.09 percent as of December 31, 2014. Using this methodology, management determined a provision for loan losses of $850 was required for the year ended December 31, 2015. The increase in the allowance for loan losses was primarily due to loan growth and increased factors for other considerations, as described above. Management believes the resulting allowance for loan losses as of December 31, 2015 was adequate to absorb the losses inherent in the loan portfolio.

Additional details on the allowance for loan losses is included in Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K.

Table of Contents
(dollars in thousands, except per share amounts)

DEPOSITS

Deposits totaled $1,440,729 as of December 31, 2015, which was 13.4 percent higher than the total as of December 31, 2014. Approximately $27,000 of the increase was due to an increase in deposits of a significant deposit relationship with a related party. As of December 31, 2015, this significant deposit relationship maintained total deposit balances of approximately $157,000. The increases in noninterest-bearing demand, interest-bearing demand and savings account balances were due to the combination of business development efforts and normal fluctuations as corporate customers' liquidity needs vary at any given time. West Bank continues to offer the Insured Cash Sweep (ICS) interest-bearing checking and money market products, which is a reciprocal program providing FDIC insurance coverage for all participating deposits.

The volume of time deposits continued to drift lower during 2015 as interest rates remained at historic low levels and fewer customers were willing to lock in low rates for extended time periods. West Bank continues to offer the Certificate of Deposit Account Registry Service (CDARS) program, which made up approximately 37.3 percent of total time deposits at December 31, 2015. The CDARS program is a reciprocal program providing FDIC insurance coverage for all participating deposits.

Approximately 71 percent of the total time deposits issued by West Bank mature in the next year. It is anticipated that a significant portion of these time deposits will be renewed, even though time deposits are not considered an attractive investment option for some segments of our customer base in the current low interest rate environment. Interest rates offered on certain time deposits were increased in mid-December 2015 in conjunction with the Federal Reserve's increase in the targeted federal funds rate. In the event a substantial volume of time deposits are not renewed, management believes the Company has sufficient liquid assets and borrowing lines to fund the potential runoff.

The following table shows the amounts and remaining maturities of time certificates of deposit with balances of $100 or more as of December 31, 2015.

3 months or less	$23,427
Over 3 through 6 months	13,865
Over 6 through 12 months	17,124
Over 12 months	15,832
	$70,248

The following table sets forth the average balances for each major category of deposits and the weighted average interest rate paid for those deposits during the years indicated.

	Years ended December 31								
	2015			2014			2013		
	Average Balance	Average Rate		Average Balance	Average Rate		Average Balance	Average Rate	
Noninterest-bearing demand	$420,842	—		$336,456	—		$312,648	—	
Interest-bearing demand:									
Reward Me checking	82,583	0.30	%	77,178	0.35	%	80,667	0.68	%
Insured cash sweep	76,181	0.23	%	75,720	0.23	%	14,395	0.27	%
Other interest-bearing demand	84,065	0.05	%	77,452	0.05	%	73,742	0.08	%
Money market:									
Insured cash sweep	130,339	0.23	%	141,912	0.24	%	122,031	0.26	%
Other money market	376,226	0.14	%	290,212	0.13	%	297,530	0.20	%
Savings	76,377	0.04	%	73,528	0.05	%	62,201	0.09	%

Time deposits	128,899	0.65	%	150,378	0.80	%	168,050	1.07	%
	$1,375,512			$1,222,836			$1,131,264		

Management does not expect interest rates on interest-bearing deposits in 2016 to be significantly different from the average rates paid in 2015, unless the Federal Reserve significantly increases the targeted federal funds rate.

Table of Contents
(dollars in thousands, except per share amounts)

BORROWED FUNDS

The following table summarizes the outstanding principal balances, net of any discount, and the weighted average rate for each category of borrowed funds as of the dates indicated.

	As of December 31								
	2015			2014			2013		
	Balance	Rate		Balance	Rate		Balance	Rate	
Subordinated notes	$20,619	3.72	%	$20,619	3.39	%	$20,619	3.41	%
FHLB advances, net of discount	98,385	3.35	%	96,888	2.90	%	95,392	2.52	%
Long-term debt	8,415	2.15	%	12,676	2.08	%	15,935	2.11	%
Short-term borrowings	19,000	0.34	%	66,000	0.28	%	—	—	
Federal funds purchased	2,760	0.12	%	2,975	0.12	%	16,622	0.26	%
	$149,179	2.89	%	$199,158	1.99	%	$148,568	2.35	%

The following tables set forth the average principal balance, net of any discount, the average rate paid, and the maximum outstanding balance for each category of borrowed funds for the years indicated.

	Years Ended December 31								
	2015			2014			2013		
	Average Balance	Average Rate		Average Balance	Average Rate		Average Balance	Average Rate	
Subordinated notes	$20,619	3.42	%	$20,619	3.65	%	$20,619	3.45	%
FHLB advances, net of discount	97,615	2.89	%	96,113	2.73	%	94,601	2.81	%
Long-term debt	10,658	2.18	%	14,196	2.09	%	8,522	2.21	%
Federal funds purchased and securities sold under agreements to repurchase	4,915	0.18	%						